SANFORD™

Consolidated Financial Statements and Additional Consolidating Information as of and for the Years Ended June 30, 2013 and 2012, and Independent Auditors' Report

SANFORD

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Sanford
Sioux Falls, South Dakota

We have audited the accompanying consolidated financial statements of Sanford and its subsidiaries ("Sanford"), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sanford as of June 30, 2013 and 2012, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules listed in the table of contents on page 38 – 44 are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These schedules are the responsibility of Sanford's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

September 27, 2013

SANFORD

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2013 AND 2012
(In thousands)

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash	$ 85,426	$ 33,055
Short-term investments	11,929	15,010
Debt service funds held by trustee	4,137	3,768
Pledges receivable, less allowances	6,524	12,194
Accounts receivable, less allowances	526,867	448,100
Inventories	49,661	39,382
Other current assets	37,277	43,209
Total current assets	721,821	594,718
ASSETS WHOSE USE IS LIMITED:		
Board designated investments	778,647	825,811
Held by trustee	83,041	-
Restricted funds	1,535	1,537
Deferred compensation trusts	35,066	30,553
Total assets whose use is limited	898,289	857,901
PROPERTY AND EQUIPMENT — Net	1,319,718	1,141,047
OTHER ASSETS:		
Investment in joint ventures	29,014	22,900
Non-operating property	48,052	46,131
Deferred financing costs	8,466	7,065
Goodwill	38,356	38,356
Notes receivable	22,124	16,015
Naming rights	8,704	7,741
Pledges receivable, less allowances	12,680	13,061
Other assets	43,720	20,531
Total other assets	211,116	171,800
TOTAL ASSETS	$ 3,150,944	$ 2,765,466

See notes to consolidated financial statements.

SANFORD

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2013 AND 2012
(In thousands)

LIABILITIES AND NET ASSETS	2013	2012
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 39,966	$ 36,219
Accounts payable	69,228	65,804
Third-party payer settlements payable	28,444	14,170
Accrued wages and payroll taxes	99,490	81,058
Accrued vacation benefits	75,195	61,775
Accrued defined contribution pension expense	12,679	8,636
Accrued self-insurance claims	8,467	19,969
Accrued interest	3,713	3,291
Other current liabilities	51,218	45,909
Total current liabilities, excluding long-term debt subject to short-term liquidity arrangements	388,400	336,831
Long-term debt subject to short-term liquidity arrangements	8,408	8,928
Total current liabilities, including long-term debt subject to short-term liquidity arrangements	396,808	345,759
OTHER LIABILITIES:		
Deferred compensation	53,242	45,494
Defined benefit pension	57,001	57,076
Other non-current liabilities	31,505	27,130
Total other liabilities	141,748	129,700
LONG-TERM DEBT, Less current maturities and long-term debt subject to short-term liquidity arrangements	729,265	602,284
Total liabilities	1,267,821	1,077,743
COMMITMENTS AND CONTINGENCIES (Notes 17, 18 and 19)		
NET ASSETS:		
Unrestricted	1,677,566	1,505,039
Temporarily restricted	157,327	141,215
Permanently restricted	48,230	41,469
Total net assets	1,883,123	1,687,723
TOTAL LIABILITIES AND NET ASSETS	$ 3,150,944	$ 2,765,466

See notes to consolidated financial statements.

SANFORD

CONSOLIDATED STATEMENT OF OPERATIONS
AS OF JUNE 30, 2013 AND 2012
(In thousands)

	2013	2012
OPERATING REVENUES:		
Net patient service revenue	$ 2,799,279	$ 2,300,714
Provision for bad debts	(130,467)	(99,782)
Net patient service revenue less provision for bad debts	2,668,812	2,200,932
Premium revenue	144,308	136,702
Other operating revenue	268,113	163,970
Net assets released from restrictions for operations	24,669	15,141
Total operating revenues	3,105,902	2,516,745
OPERATING EXPENSES:		
Salaries and benefits	1,861,635	1,463,129
Supplies	534,315	394,905
Purchased services and other	428,010	362,166
Medical claims	64,908	69,542
Depreciation and amortization	154,722	119,431
Interest	31,466	28,258
Total operating expenses	3,075,056	2,437,431
INCOME FROM OPERATIONS	30,846	79,314
NON-OPERATING (EXPENSE) INCOME:		
Investment return	(5,379)	27,914
Change in interest rate swap valuation	1,680	(677)
Loss on extinguishment of debt	-	(2,934)
Other expenses and losses	(13,637)	(18,237)
Net non-operating (expense) income	(17,336)	6,066
EXCESS OF REVENUE OVER EXPENSES, before contributions from affiliations	13,510	85,380
Contributions received in connection with affiliations	120,059	5,976
EXCESS OF REVENUES OVER EXPENSES	133,569	91,356
Net assets released from restrictions for acquisitions of property and equipment	5,326	5,010
Pension plan related changes other than net periodic plan expense	33,632	(22,499)
INCREASE IN UNRESTRICTED NET ASSETS	$ 172,527	$ 73,867

See notes to consolidated financial statements.

SANFORD

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(In thousands)

	2013	2012
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	$ 133,569	$ 91,356
Pension plan related changes other than net periodic plan expense	33,632	(22,499)
Net assets released from restrictions for acquisition of property and equipment	5,326	5,010
Increase in unrestricted net assets	172,527	73,867
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions restricted by donors	38,430	12,460
Investment return	4,536	1,377
Other	(100)	(35)
Net assets released from restrictions	(29,983)	(19,985)
Contribution received in connection with affiliation	3,229	-
Increase (decrease) in temporarily restricted net assets	16,112	(6,183)
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions restricted by donors	4,256	4,648
Investment return	306	30
Other	2	(24)
Contribution received in connection with affiliation	2,197	-
Increase in permanently restricted net assets	6,761	4,654
INCREASE IN NET ASSETS	195,400	72,338
NET ASSETS — Beginning of year	1,687,723	1,615,385
NET ASSETS — End of year	$ 1,883,123	$ 1,687,723

See notes to consolidated financial statements.

SANFORD

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(In thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 195,400	$ 72,338
Non-cash changes in net assets:		
Depreciation and amortization	154,722	119,431
Provision for bad debts	130,467	99,782
Net loss on investments in joint ventures	(510)	3,860
Net unrealized market gain on investments	20,745	(14,299)
Change in interest rate swap valuation	(1,680)	677
Loss on sale of property, plant and equipment	(694)	1,226
Change in defined benefit pension plan	(32,951)	20,585
Contributions	(44,055)	(18,806)
Contributions received in connection with affiliations — net of cash received	(105,706)	(4,277)
Changes in other operating elements:		
Other changes in pledges receivable	598	(1,216)
Accounts receivable and other current assets	(158,003)	(224,697)
Accounts payable and other current liabilities	(1,562)	(2,455)
Deferred compensation liability	7,455	5,921
Other non-current liabilities	5,922	13,108
Cash flows from operating activities	170,148	71,178
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(221,036)	(256,399)
Purchases of investments and funds held by trustee	(227,307)	(65,749)
Proceeds from sale of investments and funds held by trustee	213,146	168,304
Investments in joint ventures	(1,173)	(8,892)
Other	3,206	(494)
Investment in naming rights	(2,010)	(2,009)
Increase in notes receivable	(5,449)	(5,985)
Increase in other assets	2,476	(2,689)
Acquisitions of businesses	-	(11,494)
Cash flows used for investing activities	(238,147)	(185,407)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	120,018	79,686
Refunding debt issued	-	76,880
Debt refunded	-	(79,180)
Repayment of long-term debt	(40,546)	(32,309)
Net increase in bond discounts and premiums	8,378	(183)
Deferred financing issuance costs	(1,478)	(836)
Proceeds from restricted contributions	33,998	31,937
Cash flows from financing activities	$ 120,370	$ 75,995

(Continued)

SANFORD

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(In thousands)

	2013	2012
INCREASE (DECREASE) IN CASH	$ 52,371	$ (38,234)
CASH — Beginning of year	33,055	71,289
CASH — End of year	$ 85,426	$ 33,055
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Net property and equipment funded through accounts payable	$ 1,654	$ 416
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 34,438	$ 25,884
Cash paid (received) for federal income taxes	$ 3,259	$ (152)
In-kind contributions received	$ 16,082	$ -

See notes to consolidated financial statements.

Dollar amounts are in thousands

1. NATURE OF ORGANIZATION

NATURE OF ORGANIZATION

Sanford is a not for profit corporation headquartered in Sioux Falls, South Dakota. Sanford and its wholly owned subsidiaries (collectively referred to as Sanford) is a regionally integrated network of physicians, hospitals and healthcare management services. Sanford operates six general acute care hospitals, 17 critical access hospitals, primary care, occupational health and specialty care clinic facilities; senior care and senior housing facilities; retail pharmacies; home health care programs; fully insured health insurance; research; and foundations supporting health related services. As of June 30, 2013, Sanford employed approximately 1,369 physician providers.

The consolidated financial statements include the accounts of Sanford, which incorporate both tax-exempt and taxable entities. All intercompany balances and transactions have been eliminated in the consolidation.

SANFORD OBLIGATED GROUP

Sanford and certain of its controlled entities have entered into a Master Trust Indenture dated as of July 1, 1997, as amended. In addition, in connection with the issuance of the South Dakota Health and Educational Facilities Authority Revenue Bonds, Series 2012E, Sanford West, Sanford Bismarck and Sanford West Foundation became Members of the Obligated Group under the Master Indenture pursuant to the certain Eighteenth Supplemental Master Trust Indenture dated October 1, 2012. Members of the Obligated Group are jointly and severally obligated for the debt issued and guaranteed under the Master Trust Indenture. Sanford entities that make up the Obligated Group as of June 30, 2013 are as follows:

Sanford	Sanford Medical Center	Sanford Medical Center Thief River Falls
Sanford Health	Sanford Medical Center Fargo	Sanford Medical Center Mayville
Sanford North	Sanford Bismarck	Sanford Home Health
Sanford West	Sanford Health of Norther Minnesota	Sanford Health Foundation
Sanford Health Network	Sanford Clinic	Sanford Health Foundation North
Sanford Health Network North	Sanford Clinic North	Sanford West Foundation

2. BUSINESS COMBINATIONS AND ACQUISITIONS

Sanford generally accounts for business combinations using the acquisition method of accounting for not for profit organizations. According to the authoritative guidance related to mergers and acquisitions, the consolidated financial statements include the results of the acquisitions since the date acquired.

Fiscal 2013

On July 3, 2012, Sanford executed an affiliation agreement with Sanford West, formerly known as Medcenter One Health Systems, whereby Sanford became the sole member of Sanford West. The affiliation included Sanford West’s controlled entities; Medcenter One, Inc., Medcenter One Living Centers, Medcenter One Foundation and Medcenter One Affiliated Services, Inc.

On January 1, 2013, Sanford Health Network North executed an affiliation agreement with Sanford Hillsboro, formerly known as Hillsboro Medical Center, whereby Sanford Health Network North became the sole member of Sanford Hillsboro.

The fair value to be assigned to all identifiable assets acquired and liabilities assumed is supported by valuations using estimates and assumptions provided by management. The fair values of assets acquired and liabilities assumed in connection with the affiliations are as follows:

	Sanford West	All Other
Property and equipment	$ 102,650	$ 11,571
Accounts receivable - net	53,492	1,886
Other assets	81,104	4,726
Total assets acquired	237,246	18,183
Assumed liabilities	115,489	14,355
Cash paid	-	100
Net contribution received	$ 121,757	$ 3,728

Pro forma total operating revenues, expenses, and income from operations representing amounts for the period July 1, 2012 through June 30, 2013, as if the affiliations had occurred on July 1, 2012, are as follows:

	Sanford
Pro forma:	
Total operating revenues	$ 3,116,555
Total operating expenses	3,085,364
Income from operations	31,191

Additional pro forma disclosures for changes in net assets have been omitted because of the impracticality of measuring certain amounts as of July 1, 2012. Pro forma disclosures for the year ended June 30, 2012 are materially comparable to the amount shown above for the year ended June 30, 2013.

Below are operating revenues and income from operations representing amounts from the date of acquisition through June 30, 2013, included in the consolidated statements of operations:

	Sanford West	All Other
Operating revenues	$ 379,135	$ 7,842
Income from operations	9,263	609

Fiscal 2012

In July 2011, Sanford executed an affiliation and purchase agreements with the City of Wheaton, whereby Sanford agreed to acquire assets and assume liabilities of the Wheaton Community Hospital and Medical Center.

In January 2012, Sanford acquired the assets and assumed the liabilities of Broadway Medical Center in Alexandria, Minnesota.

There were additional acquisitions of provider practices and a critical access hospital.

The fair value assigned to all identifiable assets acquired and liabilities assumed are supported by valuations using estimates and assumptions provided by management. The estimated fair values of assets acquired and liabilities assumed on the above acquisitions were as follows:

	Wheaton	Alexandria	All Other
Property and equipment	$ 3,860	$ 5,966	$ 502
Goodwill	-	1,839	4,000
Accounts receivable — net	1,740	550	1,397
Other assets	3,589	2,727	2,363
Total assets acquired	9,189	11,082	8,262
Incurred liabilities	-	-	1,232
Assumed liabilities	4,166	3,644	575
Cash paid	-	7,438	5,502
Net contribution received	$ 5,023	$ -	$ 953

Pro forma total operating revenues, total operating expenses, and income from operations representing amounts for the year ended June 30, 2012 as if the related acquisitions had occurred on July 1, 2011 are as follows:

	Sanford
Pro forma:	
Total operating revenues	$ 2,540,928
Total operating expenses	2,461,601
Income from operations	79,327

Additional pro forma disclosures for changes in net assets have been omitted because of the impracticality of measuring certain amounts as of July 1, 2011.

Below are operating revenues and income from operations representing amounts from the date of acquisition through June 30, 2012 included in the consolidated statements of operations:

	Wheaton	Alexandria	All Other
Operating revenues	$ 6,774	$ 6,196	$ 7,728
Income (loss) from operations	224	(269)	1,594

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND USE OF ESTIMATES

The consolidated financial statements are prepared on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, such as contractual allowances, allowances for doubtful accounts receivable, post-retirement benefit obligations, general and professional liability claims, estimated incurred but not reported health and dental claims, and workers' compensation claims liability, that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INVENTORIES

Inventories are reported at lower of cost (first-in, first-out method) or market.

INVESTMENTS AND INVESTMENT RETURN

Sanford invests in various securities, including debt and equity instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities could occur and such changes could materially affect the value of investments.

Short-term investments and debt service funds held by trustee are available to support current liabilities and are recorded as current assets. Investment income for those investments designated for debt service is included in other operating revenue within the consolidated statements of operations. All other investment income and realized and unrealized gains and losses are recorded above the performance indicator in non-operating (expense) income.

DEPRECIATION

Land and leasehold improvements, buildings, equipment, and construction in progress are reported at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Land and leasehold improvements	2–25 years
Hospital and medical office buildings	10–40 years
Building equipment	3–40 years
Moveable equipment	3–25 years

Management annually reviews the carrying value of long-lived assets for potential impairment. There was no material impairment losses taken during the years ended June 30, 2013 or 2012.

NON-OPERATING PROPERTY

Non-operating property consists primarily of real estate purchased for potential future development. The real estate is recorded at the lower of cost or market.

NAMING RIGHTS

Sanford entered into an agreement with the North Dakota State University Development Foundation to pay $13,000, payable over ten years, in support of the renovation and expansion of the Bison Athletic Facility to obtain certain exclusive rights. The naming rights are being amortized over the term of the agreement, which ends June 30, 2036. As of June 30, 2013, Sanford has paid $4,000.

Sanford entered into an agreement with the South Dakota Board of Regents to pay $10,180 to purchase exclusive right, license and privilege to use the name and marks used by the Sanford School of Medicine of the University of South Dakota. The naming rights are being amortized over the term of the agreement, which ends May 31, 2030. As of June 30, 2013, Sanford has paid $10,020.

RESERVES FOR INCURRED BUT NOT REPORTED CLAIMS

Sanford has reserves for its fully insured business for estimated incurred but not reported medical claims. These reserves, which are included in accounts payable within current liabilities on the consolidated balance sheets, are estimated based upon historical submission and payment data, cost trends, customer and product mix, seasonality, utilization of health care services, contracted service rates, and other relevant factors. Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified. The balance of the reserves was $10,314 and $11,190 at June 30, 2013 and 2012.

Sanford also provides for self-insured reserves for estimated incurred but not reported medical claims for its employee health plan. These reserves are also included in current liabilities on the consolidated balance sheet and totaled $12,990 and $14,949 at June 30, 2013 and 2012. For employee health claims under the self-insured plan that are provided through Sanford controlled hospitals and clinics, Sanford recognized employee benefits expense and net patient service revenue in the consolidated statements of operations of $99,229 and $80,282 for the years ended June 30, 2013 and 2012.

Sanford also provides reserves for estimated reported as well as incurred but not reported professional and general liability claims within its self-insured retention limits. The balances of the total reserves, included in other current liabilities and other non-current liabilities on the consolidated balance sheet, were $26,335 and $21,439 at June 30, 2013 and 2012.

OTHER NON-CURRENT LIABILITIES

Non-current liabilities consist of the fair value of interest rate swap agreements, professional and general liability claims loss reserves, and other.

NET ASSETS

Temporarily restricted net assets are those whose use by Sanford has been limited by donors to a specific purpose or period of time. Permanently restricted net assets have been restricted by donors to be maintained by Sanford in perpetuity. Net assets that are not subject to donor imposed stipulations are classified as unrestricted net assets. Restricted gifts and other restricted resources are recorded as direct additions to the appropriate category of net assets.

When a restriction is met, or a donor-imposed restriction changes, net assets are reclassified and reported in the statements of operations and changes in net assets as net assets released from restrictions. Donor restricted gifts whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

DERIVATIVE INSTRUMENTS

Sanford uses interest rate swaps to manage interest rate risk related to the variable interest rate debt. Sanford's interest rate swaps are based on LIBOR and may be terminated, with a cash settlement, at any time. The interest rate swaps are not designated as a hedge and as a result, changes in the fair value of the interest rate swaps are recorded as non-operating (expense) income in the consolidated statements of operations. The interest rate swaps are recognized on the consolidated balance sheets at fair value. Fair value represents the amounts that would be required to settle the interest rate swap contracts.

Sanford had the following derivative instruments at June 30:

2013 Nominal Amount	Expiration Date	Fixed Rate	2013 Fair Value	2012 Fair Value
$ 30,000	November 1, 2019	3.467 %	$ (3,147)	$ (4,259)
7,380	November 1, 2014	2.480 %	(128)	(329)
16,030	November 1, 2014	2.686 %	(558)	(925)
$ 53,410			$ (3,833)	$ (5,513)

All other contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as, normal purchases and sales.

STATEMENTS OF OPERATIONS PERFORMANCE INDICATOR

Income from operations includes all revenues and expenses related to core operations. Non-operating items include investment return, net realized and unrealized market gains and losses, change in interest rate swap valuation, loss on extinguishment of debt, and other expenses and losses which consist of contributions expense, net rental income, non-operating depreciation, and income tax expense.

Changes in net assets, which are excluded from the excess of revenues over expenses, include pension plan related changes other than net periodic plan expense and assets acquired using contributions which were restricted by donors for the purpose of purchasing assets.

NET PATIENT REVENUE AND ACCOUNTS RECEIVABLE

Net patient service revenue is reported at estimated net realizable amounts from patients, residents, third-party payers, and others for services provided. Contractual adjustments arising from various reimbursement arrangements with third-party payers are accrued on an estimated basis in the period in which the services are rendered. Certain reimbursement arrangements are subject to retroactive audit and adjustments. As a result, there is a reasonable possibility that recorded estimates could change in the near term. Differences between amounts estimated and final settlements are included in operations in the year in which the differences become known.

Contractual allowances of $424,045 and $369,159 at June 30, 2013 and 2012 have been recorded as a deduction to accounts receivable to estimate third-party contractual allowances.

Sanford’s allowance for bad debt of $106,684 and $82,780, as a percentage of net patient accounts receivable was 16.8% and 15.6% as of June 30, 2013 and 2012, respectively. The increase is due to the shift to additional patient liability, driven by the changing healthcare environment and declining economic conditions. In addition, Sanford’s provision for bad debts was $130,467 and $99,782 for the years ended June 30, 2013 and 2012.

CHARITY CARE

To fulfill its mission of community service, Sanford provides care to patients without charge or at amounts less than its established rates. These patients meet criteria as defined by Sanford’s charity care policy. Sanford does not pursue collection of amounts determined to qualify as charity care, accordingly, these amounts are not reported as net patient revenues.

PREMIUM REVENUE

Premium revenue represents gross premiums earned in the year for which services are covered. Premiums received in advance of a coverage period are recorded as other current liabilities.

OTHER OPERATING REVENUE

Other operating revenue is revenue generated by activities Sanford considers to be non-patient care services, such as reference lab, wellness activities, nutrition and food services, mobile diagnostic services, and various retail operations. These revenues are recognized when services are performed or products are delivered. Other operating revenue also includes unrestricted contributions.

Under certain provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), federal incentive payments are available to hospitals, physicians and certain other professionals when they adopt, implement or upgrade certified electronic health record (EHR) technology or when they become “meaningful users,” as defined under ARRA. Sanford recognizes EHR incentive payments when the specified meaningful use criteria are met and the contingencies in estimating the amount to be received are resolved. For the years ended June 30, 2013 and 2012 Sanford recognized approximately $32,000 and $5,400 of EHR incentive payments as other operating revenue in the consolidated statements of operations.

CONTRIBUTIONS

Sanford records pledges receivable at the time the unconditional pledges are received. Conditional pledges are recognized only when the conditions on which they depend are substantially met and the pledges become unconditional.

COSTS OF BORROWING (INTEREST EXPENSE)

Interest costs incurred on borrowed funds during the construction of capital assets, net of interest income earned on investments held by trustee under bond indenture agreements, is capitalized as a component of the cost of acquiring those assets.

Deferred financing costs are amortized over the period the obligation is outstanding. Amortization of deferred financing costs is capitalized during the period of construction of capital assets.

Fees paid to maintain assets held by trustees under indenture agreements and fees paid under remarketing and liquidity facility agreements are recognized as interest expense and capitalized during the period of construction of capital assets.

The amount of interest costs capitalized includes interest paid, premiums amortized and bond fund gains and losses. Sanford's interest cost capitalized was $3,739 and $2,646 for the years ended June 30, 2013 and 2012.

INCOME TAXES

Certain controlled organizations are subject to income taxes.

Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting basis of assets and liabilities based on enacted tax rates and laws. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination.

The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year. Deferred tax assets of $1,363 and $1,496 have been recorded in accounts receivable, less allowances on the consolidated balance sheets at June 30, 2013 and 2012. Deferred tax liabilities of $365 and $20 have been recorded and included in other current liabilities in the consolidated balance sheets at June 30, 2013 and 2012.

The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported. Income tax receivables of $143 and $98 have been included in accounts receivable, less allowances on the consolidated balance sheets as of June 30, 2013 and 2012. Income tax expense of $3,573 and $114 has been recorded and included in other expense on the consolidated statements of operations for the years ended June 30, 2013 and 2012.

STATEMENTS OF CASH FLOWS

Cash consists of checking and savings accounts and does not include cash equivalents.

SUBEQUENT EVENTS

Sanford has evaluated subsequent events through September 27, 2013, the date of this report, and no significant events have been identified.

4. ACCOUNTS RECEIVABLE BY PAYER

Sanford grants credit without collateral to its patients, most of who are insured under third-party payer agreements. The mix of receivables net of contractual and bad debt allowances from patients and third-party payers at June 30 was as follows:

	2013	2012
Medicare	23.5 %	27.0 %
Medicaid	10.0	10.1
Blue Cross	18.0	18.6
Other third-party payers	28.6	26.5
Self-pay and other	19.9	17.8
	100.0 %	100.0 %

5. PLEDGES RECEIVABLE

Pledges receivable were discounted at rates ranging from 0.59% to 5.13% for the year ended June 30, 2013 and 0.70% to 5.13% for the year ended June 30, 2012. Pledges receivable as of June 30 consist of:

	2013	2012
Pledge maturities:		
Within one year	$ 7,092	$ 12,297
One to five years	11,205	12,036
After five years	2,212	2,361
	20,509	26,694
Less present value component and allowance	(1,305)	(1,439)
Pledge receivables	$ 19,204	$ 25,255
Pledge restrictions:		
Unrestricted	$ 11	$ 1
Temporarily restricted	8,255	15,810
Permanently restricted	10,938	9,444
Pledge receivables	$ 19,204	$ 25,255

6. INVESTMENT RETURN

For the years ended June 30, the following schedule summarizes total investment return and its classification in the consolidated statements of operations and of changes in net assets:

	2013	2012
Return on investments:		
Unrestricted other operating revenue:		
Dividend and interest income	$ 18,072	$ 18,016
Unrestricted nonoperating investment return:		
Dividend and interest income	11,743	8,202
Net realized gains on sales of investments	6,981	4,782
Unrealized (losses) gains	(24,103)	14,930
Total unrestricted nonoperating investment return	(5,379)	27,914
Total unrestricted return on investments	12,693	45,930
Temporarily restricted:		
Dividend and interest income	1,282	1,159
Net realized gains on sales of investments	132	59
Unrealized gains	3,122	159
Total temporarily restricted investment return	4,536	1,377
Permanently restricted:		
Dividend and interest income	79	44
Net realized losses on sales of investments	(9)	(3)
Unrealized gains (losses)	236	(11)
Total permanently restricted investment return	306	30
Total return on investments	$ 17,535	$ 47,337

Investment income in the consolidated statements of operations is net of investment management fees of $1,941 and $364 for the years ended June 30, 2013 and 2012.

7. FAIR VALUE MEASUREMENTS

Accounting guidance requires the disclosure of the estimated fair value of financial instruments.

Short-term investments, debt service funds held by trustee, board designated investments, assets held by trustee, restricted funds, and deferred compensation trusts are recorded at their estimated fair value, with unrealized gains and losses being recorded in non-operating (expense) income.

Debt service funds held by trustee are maintained in accordance with the bond indenture agreements related to principal and interest funding requirements.

Board designated investments are internally designated to support Sanford initiatives and debt covenants.

Assets held by trustee are bond proceed project and debt service reserve funds held under indenture agreements.

Restricted funds represent charitable remainder trusts, trusts established through estates that are controlled by donors for the benefit of Sanford, and funds held to meet statutory requirements. Restricted funds are reported at Sanford's share of the fair value of each trust.

The carrying value of pledges receivable and notes receivable approximates fair value.

Fixed rate long-term debt is carried at historical cost, and the fair value is determined by discounting future cash flows at current rates for the debt with similar risks and maturities. Sanford has estimated the fair value of long term debt to be approximately $759,000 and $660,000 as of June 30, 2013 and 2012.

In accordance with the authoritative guidance, assets and liabilities recorded at fair value in the financial statements are categorized, for disclosure purposes, based upon whether the inputs used to determine their fair values are observable or unobservable.

More specifically, the authoritative guidance establishes a three-level value hierarchy for disclosure of fair value measurements. Level 1 inputs represent quoted prices in active markets for identical assets or liabilities. Level 2 inputs include directly or indirectly observable inputs other than Level 1 inputs, such as quoted prices for similar instruments in active or inactive markets; quoted prices for identical instruments in inactive markets; or other inputs that are observable or can be corroborated by observable market data. Generally, Sanford's Level 2 fixed income securities are valued based on quoted prices for similar instruments, including the assets held in the defined benefit plans. Level 3 inputs are unobservable inputs related to the instruments that are supported by little or no market activity using pricing models, discounted cash flow methodologies, or similar valuation techniques. Hedge funds are valued based on discounted cash flows.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There were no transfers between Level 1 and 2 investments during the years ended June 30, 2013 and 2012.

Sanford obtains information from its custodians of the financial instruments and their third-party pricing services to establish fair value. Sanford reviews this information, and for many instruments, pricing inputs are readily observable in the market. The valuation methodology is accepted by market participants and involves little to no judgment. For other instruments, pricing inputs are less observable in the marketplace. These inputs can be subjective in nature and involve uncertainties. Management uses this information to distribute the instruments among the three-level hierarchy.

Financial assets measured at fair value as of June 30, are summarized in the following tables:

2013	Level 1	Level 2	Level 3	Total
Savings/money market funds	$ 59,101	$ -	$ -	$ 59,101
Certificates of deposit	-	18,090	-	18,090
Equity mutual and exchange traded funds	54,097	-	-	54,097
Fixed income mutual and exchange traded funds	166,294	-	-	166,294
U.S. government securities	12,718	-	-	12,718
Government sponsored enterprise securities	-	96,767	-	96,767
Government sponsored enterprise mortgage backed securities	-	33,038	-	33,038
Corporate debt securities	-	222,383	-	222,383
Municipal bonds	-	207,087	-	207,087
Accrued earnings	-	6,223	-	6,223
Other	-	-	1,956	1,956
Total investments	$ 292,210	$ 583,588	$ 1,956	$ 877,754
Investments reported as:				
Short-term investments	803	11,126	-	11,929
Debt service funds held by trustee	273	3,864	-	4,137
Board designated investments	283,271	493,420	1,956	778,647
Held by Trustee	7,863	75,178	-	83,041
Total investments	$ 292,210	$ 583,588	$ 1,956	$ 877,754
Restricted funds - money market funds	$ 1,535	$ -	$ -	$ 1,535
Deferred compensation trusts - retail mutual funds	$ 35,066	$ -	$ -	$ 35,066

2012	Level 1	Level 2	Level 3	Total
Savings/money market funds	$ 43,842	$ -	$ -	$ 43,842
Certificates of deposit	-	24,369	-	24,369
Equity mutual and exchange traded funds	65,150	-	-	65,150
Common stocks	16,852	-	-	16,852
Fixed income mutual and exchange traded funds	163,685	-	-	163,685
U.S. government securities	32,620	-	-	32,620
Government sponsored enterprise securities	-	25,907	-	25,907
Government sponsored enterprise mortgage backed securities	-	34,641	-	34,641
Corporate debt securities	-	238,194	-	238,194
Municipal bonds	-	184,494	-	184,494
Accrued earnings	-	7,528	-	7,528
Other	-	-	7,308	7,308
Total investments	$ 322,149	$ 515,133	$ 7,308	$ 844,590
Investments reported as:				
Short-term investments	2,285	12,725	-	15,010
Debt service funds held by trustee	97	3,671	-	3,768
Board designated investments	319,767	498,736	7,308	825,811
Total investments	$ 322,149	$ 515,132	$ 7,308	$ 844,589
Restricted funds - money market funds	$ 1,537	$ -	$ -	$ 1,537
Deferred compensation trusts - retail mutual funds	$ 30,553	$ -	$ -	$ 30,553

Level 3 Fair Value Activity	Hedge Funds
Balance - June 30, 2011	$ 5,711
Purchases	1,673
Other	(76)
Balance - June 30, 2012	7,308
Sales	(6,151)
Purchases	533
Other	266
Balance - June 30, 2013	$ 1,956

8. DEFERRED COMPENSATION

Sanford offers certain management and physicians the ability to participate in non-qualified plans created in accordance with applicable provisions of the internal revenue code. The plans permit deferral of current salary, the accumulated deferred compensation balance is not available to employees until a distributable event, as defined in the plans.

All amounts of compensation deferred under the plans, and all income attributable to those amounts, are (until paid or made available to the employee or other beneficiary) solely the property of Sanford, and Sanford has all the related rights of ownership (not restricted to the payment of benefits under the plans), subject only to the claim of Sanford's general creditors. Participants' rights under the plans are equal to those of general creditors of the Sanford in an amount equal to the fair market value of the deferred account for each participant. The related assets are reported on the consolidated balance sheets within deferred compensation trusts at their fair market value of $32,934 and $28,646 at June 30, 2013 and 2012.

Sanford offered an additional non-qualified plan to a select group of management in which employees could elect to exchange compensation for discounted options to acquire mutual funds. An employee may exercise the vested portion of an option as defined in individual option agreements. Sanford recognizes a liability for the portion of the options granted that are fully vested. The related liabilities were reported on the consolidated balance sheets within deferred compensation in other liabilities at $2,717 and $3,359 on June 30, 2013 and 2012. To offset this obligation, Sanford invests in mutual funds as identified in the individual option agreements. This plan was frozen in May 2002.

Sanford has Defined Contribution and Defined Benefit Supplemental Executive Retirement Plans (SERPs) to provide designated employees with additional retirement benefits. The participants' rights to SERP benefits are those of unsecured creditors. Generally for benefits to be paid, participants must work past the age of 55 years.

Sanford, at its discretion, will credit a percent of a participant's salary to a Defined Contribution SERP Account on behalf of each participant. Such SERP accounts are maintained on the books of Sanford as a device for the measurement and determination of the amounts to be paid to participants. Sanford credited $111 and $123 to the SERP accounts for the years ended June 30, 2013 and 2012.

The Defined Benefit SERP produces benefits calculated based on years of service, a final average salary calculation and normal and early retirement dates. The present value of benefits at June 30, 2013 and 2012 were $13,687 and $11,245. These values are based on the assumption that all participants are employed past the early retirement date.

9. PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

	2013	2012
Land and improvements	$ 217,631	$ 170,058
Hospital and medical office buildings	1,044,507	866,894
Building equipment	252,628	206,110
Movable equipment	995,925	830,972
Construction in process	104,416	127,646
	2,615,107	2,201,680
Accumulated depreciation	(1,295,389)	(1,060,633)
Property and equipment	$ 1,319,718	$ 1,141,047

10. INVESTMENT IN JOINT VENTURES

Sanford records investments in joint ventures using the equity method, which reflects the investment at cost, net of Sanford's share of earnings, losses and distributions. Earnings and losses are included in other non-operating (expense) income. The following schedule summarizes Sanford's ownership and investment in joint ventures at June 30:

	Ownership at June 30, 2013	Investment 2013	Investment 2012
YMCA/Sanford LLC	50 %	$ 3,477	$ 3,624
Lewis Family Drug	50	5,583	4,942
UPC Wellness Center	50	6,656	6,399
Bismarck Cancer Center	50	5,505	-
Other	Various	7,793	7,935
Investment in Joint Ventures		$ 29,014	$ 22,900

11. NOTES RECEIVABLE

Sanford issues notes to employees and physicians as part of its recruitment process. Notes are repayable over a period of one to ten years and are issued at current interest rates ranging from 1.95% to 9.25%. The notes are issued with forgiveness provisions.

At June 30, 2013 and 2012, notes receivable from physicians and employees totaled $38,164 and $29,004 as reported within notes receivable on the consolidated balance sheet.

12. GOODWILL

Goodwill generally represents any excess of acquisition price over fair value of net assets acquired. Goodwill is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate potential impairment. The annual impairment test was performed on June 30 and there were no additions or impairment charges for the years ended June 30, 2013 or 2012. At both June 30, 2013 and 2012, goodwill totaled $38,356.

13. THIRD-PARTY PAYER SETTLEMENTS PAYABLE

Services provided to certain patients are paid for by third-party payer programs. Sanford is reimbursed in accordance with the principles of reimbursement of each third-party payer program. A portion of the reimbursement is based on the cost of the services and the balance is based on predetermined specific rates for each discharged patient. Sanford participates in Medicare, Medicaid, Blue Cross and other third-party payer programs, which usually result in reductions from normal patient charges. The approximate percentage of net patient service revenue from such third-party payer programs for the years ended June 30, is as follows:

	2013	2012
Medicare	34.3 %	33.9 %
Medicaid	10.6	9.8
Blue Cross	27.3	28.1
Other third-party payers	27.8	28.2
	100.0 %	100.0 %

Certain major programs require the filing of annual cost reports which are subject to audit by third-party payers. Cost reports for the most recent years related to the programs, as submitted or in the process of being submitted by

Sanford, remain open and are subject to final settlement by third-party payer programs. Sanford has recorded as a current liability the estimated final settlements with third-party payers for all open cost reports. Certain prior year cost reports for Medicare have been finalized, but Sanford is appealing specific issues.

14. PENSION PLANS

DEFINED CONTRIBUTION PENSION PLANS

Sanford has defined contribution pension plans that are available to all employees that do not participate in a defined benefit pension plan. Employer contributions are based on a percentage of annual compensation and employee level of contributions. Employee and employer contributions are deposited with the plan trustee who invests the plan assets. Sanford recognized total defined contribution pension costs of $51,557 and $33,033 as part of salaries and benefits for the years ended June 30, 2013 and 2012.

DEFINED BENEFIT PENSION PLANS

Sanford has a defined benefit pension plan that covers employees who, in July 1999, elected to remain in the plan (the “Sioux Falls Plan”); effective March 2011, a defined benefit pension plan covering substantially all the employees of Sanford Health of Northern Minnesota (the “Bemidji Plan”); and effective July 3, 2012, a defined benefit plan covering employees of Sanford West (the “Bismarck Plan”). The plans provide defined benefits based on years of service and compensation.

In March 2012, the Bemidji Plan was closed to new employees and all employees participating in the Plan, except for a defined group of employees, had their benefits in the Plan frozen and their participation transferred into a defined contribution pension plan. As a result, the Bemidji Plan realized a net curtailment gain for the year ended June 30, 2012.

Effective July 1, 2004, the Bismarck Plan was frozen with the exception of lab employees. Prior to July 2004, participation was restricted to those employees who worked solely in the Bismarck Clinic.

OBLIGATION AND FUNDED STATUS

Sanford's defined benefit pension obligations and funded statuses as measured at June 30, and changes for the years then ended are as follows:

	Bemidji Plan		Sioux Falls Plan		Bismarck Plan
	2013	2012	2013	2012	2013
Change in benefit obligation:					
Benefit obligation, beginning of period	$ 70,743	$ 59,696	$ 111,004	$ 91,219	$ 102,601
Service cost	883	1,885	1,552	1,418	1,857
Interest cost	2,956	3,211	4,538	4,959	4,290
Curtailment gain	-	(4,472)	-	-	-
Actuarial (gain) loss	(5,988)	12,041	(6,572)	17,006	(8,176)
Benefits paid	(1,873)	(1,618)	(3,473)	(3,599)	(3,601)
Benefit obligation, end of year	$ 66,721	$ 70,743	$ 107,049	$ 111,003	$ 96,971
Change in plan assets:					
Fair value of plan assets, beginning of period	49,968	46,924	74,702	67,499	69,725
Actual return on plan assets	4,638	1,272	4,488	3,602	7,492
Employer contributions	2,730	3,390	4,650	7,200	4,565
Benefits paid	(1,873)	(1,618)	(3,473)	(3,599)	(3,872)
Fair value of plan assets, end of year	$ 55,463	$ 49,968	$ 80,367	$ 74,702	$ 77,910
Funded status:					
Benefit obligation in excess of plan assets	$ (11,258)	$ (20,775)	$ (26,682)	$ (36,301)	$ (19,061)
Amounts recognized in unrestricted net assets consist of:					
Net actuarial loss (gain)	18,764	28,170	31,752	44,826	(11,078)
Prior service cost	-	74	-	-	-
Total	$ 18,764	$ 28,244	$ 31,752	$ 44,826	$ (11,078)
Accumulated benefit obligation	$ 65,654	$ 69,409	$ 103,589	$ 105,751	$ 91,224
Weighted average of assumptions used to determine end of year obligations at June 30:					
Discount rate	4.85 %	4.25 %	4.60 %	4.10 %	4.80 %
Rate of compensation increase	3.54 %	3.54 %	3.50 %	4.00 %	3.00 %

The above assumptions are established by working with an independent actuary.

COMPONENTS OF NET PENSION PERIODIC COST

	Bemidji Plan		Sioux Falls Plan		Bismarck Plan
	2013	2012	2013	2012	2013
Service cost	$ 883	$ 1,885	$ 1,552	$ 1,418	$ 1,844
Interest cost	2,956	3,211	4,538	4,959	4,634
Expected return on plan assets	(3,321)	(3,996)	(4,896)	(4,835)	(4,673)
Amortization of actuarial loss (gain)	2,175	1,601	6,908	3,905	(123)
Other	-	537	-	(19)	-
Net periodic pension cost	$ 2,693	$ 3,238	$ 8,102	$ 5,428	$ 1,682
Weighted average of assumptions used to determine net periodic cost:					
Discount rate	4.25 %	5.60 %	4.10 %	5.45 %	4.18 %
Plan assets expected long-term rate of return	6.50 %	8.00 %	6.50 %	7.00 %	6.50 %
Rate of compensation increase	3.54 %	3.54 %	4.00 %	4.00 %	3.00 %

The above assumptions are established by working with an independent actuary.

PLAN ASSETS

Sanford's pension plan weighted-average asset allocations at June 30, by asset category are as follows:

	Bemidji Plan		Sioux Falls Plan		Bismarck Plan
	2013	2012	2013	2012	2013
Equity investments	44 %	44 %	28 %	43 %	67 %
Debt investments	43	39	72	57	33
Cash equivalents	5	4	-	-	-
Other investments	8	13	-	-	-
	100 %	100 %	100 %	100 %	100 %

Sanford's policy is to maintain a balanced mix of investments between debt and equity securities in order to maximize its long-term rate of return while producing cash flows required for benefit payments. The expected long-term rate of return for all Plans is based on historical experience and management believes this will be an appropriate rate of return going forward.

Financial assets of the qualified plans measured at fair value on a recurring basis as of June 30, are summarized in the following tables by type of inputs (see Note 7) applicable to the fair value measurements:

2013 - Bemidji Plan

	Level 1	Level 2	Level 3	Total
Savings/money market funds	$ 2,501	$ -	$ -	$ 2,501
Equity mutual and exchange traded funds	17,332	-	-	17,332
Fixed income mutual and exchange traded funds	20,291	-	-	20,291
U.S. government securities	580	-	-	580
Corporate debt securities	-	9,135	-	9,135
Municipal bonds	-	1,286	-	1,286
Other	-	-	4,338	4,338
Total investments	$ 40,704	$ 10,421	$ 4,338	$ 55,463

2013 - Sioux Falls Plan

	Level 1	Level 2	Level 3	Total
Savings/money market funds	$ 475	$ -	$ -	$ 475
Certificates of deposit	-	3,934	-	3,934
Equity mutual and exchange traded funds	22,360	-	-	22,360
Fixed income mutual and exchange traded funds	14,485			14,485
U.S. government securities	5,044	-	-	5,044
Government sponsored enterprise securities	-	4,226	-	4,226
Government sponsored enterprise mortgage backed securities	-	16,460	-	16,460
Corporate debt securities	-	11,881	-	11,881
Municipal bonds	-	1,503	-	1,503
Total investments	$ 42,364	$ 38,004	$ -	$ 80,368

2013 - Bismarck Plan

	Level 1	Level 2	Level 3	Total
Savings/money market funds	$ 111	$ -	$ -	$ 111
Equity mutual and exchange traded funds	42,259	-	-	42,259
Fixed income mutual and exchange traded funds	25,529	-	-	25,529
Other	-	-	10,011	10,011
Total investments	$ 67,899	$ -	$ 10,011	$ 77,910

2012 - Bemidji Plan								
		Level 1		Level 2		Level 3		Total
Savings/money market funds	$	1,685	$	-	$	-	$	1,685
Equity mutual and exchange traded funds		7,683		-		-		7,683
Common stocks		15,718		-		-		15,718
Fixed income mutual and exchange traded funds		8,803		-		-		8,803
U.S. government securities		1,316		-		-		1,316
Corporate debt securities		-		8,462		-		8,462
Municipal bonds		-		773		-		773
Accrued earnings		-		137		-		137
Other		-		-		5,391		5,391
Total investments	$	35,205	$	9,372	$	5,391	$	49,968

2012 - Sioux Falls Plan								
		Level 1		Level 2		Level 3		Total
Savings/money market funds	$	107	$	-	$	-	$	107
Certificates of deposit		-		1,254		-		1,254
Equity mutual and exchange traded funds		31,968		-		-		31,968
U.S. government securities		5,386		-		-		5,386
Government sponsored enterprise securities		-		5,773		-		5,773
Government sponsored enterprise mortgage backed securities		-		20,037		-		20,037
Corporate debt securities		-		8,597		-		8,597
Municipal bonds		-		1,580		-		1,580
Total investments	$	37,461	$	37,241	$	-	$	74,702

Level 3 - Fair Value Activity						
		Hedge Funds		Guaranteed Investment Certificate		Total
Balance - June 30, 2011	$	3,625	$	-	$	3,625
Purchases		-		1,825		1,825
Unrealized losses		(56)		(3)		(59)
Balance - June 30, 2012		3,569		1,822		5,391
Sales				(1,706)		(1,706)
Acquired		9,554				9,554
Unrealized gains (losses)		1,226		(116)		1,110
Balance - June 30, 2013	$	14,349	$	-	$	14,349

CASH FLOWS

The following benefits are expected to be paid:

	Bemidji Plan	Sioux Falls Plan	Bismarck Plan
Years Ending June 30			
2014	$ 2,118	$ 4,211	$ 3,855
2015	2,339	4,953	4,002
2016	2,593	5,381	4,198
2017	2,861	5,843	4,573
2018	3,137	6,245	4,812
2019–2023	18,889	36,634	28,730
	$ 31,937	$ 63,267	$ 50,170

The expected contributions to be made for the defined benefit plans for the year ending June 30, 2014 are $500 for the Bemidji Plan, $4,200 for the Sioux Falls Plan and $4,200 for the Bismarck Plan.

15. DEBT

Long-term debt and current maturities at June 30 consisted of the following:

		2013		2012
Sanford Obligated Group debt:				
Note obligations related to bond issues:				
Series 1994, annual principal payments through March 2016, fixed interest rate at 6.15%	$	480	$	620
Series 1997 IA, annual principal payments through November 2015, variable interest rate adjusted weekly averaging .44% and .58% for the years ended June 30, 2013 and 2012		805		1,050
Series 1997 SD, annual principal payments through November 2022, variable interest rate adjusted weekly averaging .44% and .58% for the years ended June 30, 2013 and 2012		2,680		2,880
Series 2000, annual principal payments through November 2015, variable interest rate adjusted weekly averaging .44% and .58% for the years ended June 30, 2013 and 2012		3,275		3,450
Series 2001B, annual principal payments beginning November 2019 through November 2020, variable interest rate adjusted weekly averaging .44% and .58% for the years ended June 30, 2013 and 2012		5,975		5,975
Series 2001C, annual principal payments beginning November 2014 through November 2019, variable interest rate adjusted weekly averaging .14% and .27% for the years ended June 30, 2013 and 2012		30,000		30,000
Series 2001D, annual principal payments through November 2014, variable interest rate adjusted weekly averaging .14% and .27% for the years ended June 30, 2013 and 2012		7,380		11,990
Series 2004A, annual principal payments beginning November 2024 through November 2034, fixed interest rates ranging from 5.25% to 5.5%		52,000		52,000
Series 2004B, annual principal payments through November 2034, variable interest rate adjusted weekly averaging .14% and .27% for the years ended June 30, 2013 and 2012		16,030		16,310
Series 2007, annual principal payments through November 2040, fixed interest rate at 5.0%		69,510		70,645

(Continued)

	2013	2012
Series 2009, annual principal payments beginning November 2013 through November 2040, fixed interest rates ranging from 4.0% to 5.5%	$ 70,565	$ 70,565
Series 2010, monthly principal payments through December 2025, fixed interest rate at 4.22% through December 2015, an interest reset date	3,517	3,723
Series 2011, annual principal payments through November 2031, fixed interest rates ranging from 3.5% to 6.25%	124,550	129,660
Series 2012A, annual principal payments through September 2024, fixed interest rate at 2.74% through March 2022, an interest reset date	31,630	32,955
Series 2012B, annual principal payments through September 2031, fixed interest rate at 2.88% through March 2022, an interest reset date	32,610	33,230
Series 2012C, annual principal payments through September 2024, fixed interest rate at 3.46% through March 2022, an interest reset date	9,880	10,695
Series 2012D, annual principal payments beginning September 2013 through September 2032, fixed interest rate at 2.64% through June 2022, an interest reset date	45,000	45,000
Series 2012E, annual principal payments beginning November 2033 through November 2042, fixed interest rates ranging from 4.0% to 5.0%	120,000	-
Promissory notes:		
Quarterly payments through October 2015, 3.7% interest	5,000	5,000
Quarterly payments through May 2018, 5.85% interest	15,971	18,640
Monthly payments through July 2019, 5.9% interest	6,096	6,902
Monthly payments through October 2020, 4.75% interest	9,262	10,291
Quarterly payments through March 2021, 5.6% interest	10,186	11,233
Monthly payments through October 2016, 3.36% interest	4,337	5,545
Monthly payments through November 2016, 3.27% interest	4,436	5,643
Other	10,308	19,560
Capital leases	19,986	16,112
Other	4,505	5,771
Net unamortized original issue premium	11,861	3,483
Sanford Obligated Group debt	727,835	628,928

(Continued)

	2013	2012
North Country Senior Living:		
Series 2008, monthly principal payments through December 2038, fixed interest at 4.63% through December 2013, an interest reset date	$ 7,650	$ 7,802
Series 2009, monthly principal payments through December 2038, fixed interest rate at 4.63% through December 2013, an interest reset date	5,095	5,197
North Country Senior Living debt	12,745	12,999
Sanford Hillsboro:		
Series 2007 Revenue Bonds, annual principal payments through May 2042, fixed interest rates ranging from 5% to 5.5%	12,410	-
Net unamortized original issue premium	11	-
Sanford Hillsboro debt	12,421	-
Sanford Living Center:		
Series 2006A, monthly principal and interest payments though January 2032, fixed interest rate at 5.5% through November 2016, an interest reset date	3,814	-
Series 2006B, monthly principal and interest payments though October 2033, fixed interest rate at 5.5% through November 2016, an interest reset date	3,368	-
Series 2007, monthly principal and interest payments though October 2033, fixed interest rate at 5.5% through July 2017, an interest reset date	4,173	-
Series 2008, monthly principal and interest payments though October 2033, fixed interest rate at 5.5% through April 2018, an interest reset date	5,681	-
Promissory note	2,864	-
Capital leases	32	-
Sanford Living Center debt	19,932	-
Promissory notes	4,384	5,028
Other	322	476
Total long-term debt	777,639	647,431
Less: current maturities	(39,966)	(36,219)
Less: long-term debt subject to short-term liquidity arrangements	(8,408)	(8,928)
Long-term portion	$ 729,265	$ 602,284

All note obligations related to bond issues are secured by first mortgage liens on land, buildings, improvements, and fixtures (excluding personal property and equipment, which may be removed without damage to the real estate) constructed or to be constructed, and security interests in gross receipts excluding gifts, grants, bequests, donations, and contributions which are designated as to purpose.

The Obligated Group has obtained liquidity facilities related to the Series 1997 South Dakota and Series 2001B Note Obligations in the form of Standby Bond Purchase Agreements with The First National Bank in Sioux Falls. Under the Standby Bond Purchase Agreements, The First National Bank in Sioux Falls is required, subject to certain conditions, to purchase Series 1997 South Dakota and Series 2001B Bonds that have been tendered for purchase and not remarketed, unless the Obligated Group has provided sufficient funds to pay the purchase price. The Standby Bond Purchase Agreements are renewable annually within 45 days of issuance of the audited consolidated financial statements of Sanford and will expire August 1, 2014. The Obligated Group is providing its own internal liquidity support for the Series 1997 IA and Series 2000 Note Obligations in the event respective bonds are tendered for purchase and not remarketed. Principal in the amount of $8,408 and $8,928 as of June 30, 2013 and 2012 related to these obligations has been classified as a current obligation in the accompanying consolidated balance sheets.

Payment of the principal of the Series 2001C, 2001D and Series 2004B Note Obligations plus up to 60 days interest are secured by irrevocable direct payment letters of credit, issued by U.S. Bank National Association, at the request of the Obligated Group. Draws on the letters of credit are due 367 days after the draw. The letters of credit expire November 1, 2019, 2014 and 2019 respectively.

Sanford's debt agreements contain various restrictive covenants related to profitability, financial position and additional indebtedness, among others, as defined in the agreements. Sanford was in compliance with financial covenants at June 30, 2013 and 2012.

Scheduled maturities of the Sanford's long-term debt, excluding capital leases, at June 30, 2013 are as follows:

Years Ending June 30,		
2014	$	35,529
2015		35,223
2016		37,159
2017		31,617
2018		30,721
Thereafter		587,372
Long-term debt, excluding capital leases	$	757,621

Scheduled payments on capital lease obligations at June 30, 2013, are as follows:

Years Ending June 30,		
2014	$	5,709
2015		4,716
2016		4,040
2017		2,882
2018		2,162
Thereafter		7,549
		27,058
Less interest component		(7,040)
Capital lease obligation	$	20,018

16. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30:

		2013		2012
Children's fitness	$	31,061	$	38,120
World clinics		250		397
Breast health		81,827		77,983
Programs, services and equipment		44,189		24,715
Temporarily Restricted Net Assets	$	157,327	$	141,215

Net assets released from restrictions by incurring operating expenses that meet the requirements of donor restrictions are included in operating revenues in the consolidated statements of operations. Net assets released from restrictions for the years ended June 30, are as follows:

		2013		2012
Released for operations	$	24,669	$	15,141
Released for property and equipment		5,326		5,010
Net Assets released from restrictions	$	29,995	$	20,151

Permanently restricted net assets at June 30 are restricted to:

		2013		2012
Endowments, the income from which is not subject to any donor-imposed restrictions	$	3,950	$	2,982
Endowments, the income from which is restricted to support specific research programs and services		1,150		1,095
Endowments, the income from which is restricted to support specific health programs and services		43,130		37,392
Permanently Restricted Net Assets	$	48,230	$	41,469

Sanford has adopted investment and spending policies for endowments that preserve capital, while providing ongoing funding for programs supported by the endowment. The endowment is to be maintained in perpetuity, while available earnings are appropriated in accordance with donor restrictions. Unfavorable market conditions can cause endowments to fall below the level of the original contribution and any retained earnings requirements. Such deficiencies reported in unrestricted net assets were $0 and $10 as of June 30, 2013 and 2012.

17. COMMITMENTS

LEASES

Sanford leases various facilities and equipment under non-cancelable operating leases expiring at various dates through April 2042. Future minimum lease payments of operating leases as of June 30, 2013 that have initial or remaining lease terms in excess of one year are as follows:

Years Ending June 30,		
2014	$	22,419
2015		17,782
2016		11,755
2017		8,803
2018		6,717
Thereafter		10,844
Lease Commitments	$	78,320

Total rental expense charged to operations for the years ended June 30, consisted of the following:

		2013		2012
Minimum rentals	$	29,584	$	19,978
Contingent rentals		2,982		3,587
Rent Expense	$	32,566	$	23,565

Contingent rentals are paid based on a percent of income from operations generated at leased facilities, plus any lessor debt service.

PURCHASE COMMITMENTS

In January 2011, Sanford entered into an agreement to begin construction of a $59,600 hospital in Thief River Falls, Minnesota. As of June 30, 2013, $25,337 has been expended on the project. The anticipated opening date is November 2014.

In June 2013, Sanford began construction of a $494,000 hospital in Fargo, North Dakota. As of June 30, 2013, $841 has been expended on the project. The anticipated opening is the fall of 2017.

OTHER COMMITMENTS

In June 2012, Sanford entered into a three year agreement with Insight for Microsoft Volume Licensing. Under the terms of the agreement, Sanford has a perpetual licensing program and assumed assets of $12,264. As of June 30, 2013, a total of $4,088 has been paid.

Sanford has entered into a select number of guaranteed salary commitments. These guarantees are limited in duration and are used for the purpose of recruiting physicians.

Under the laws of the State of South Dakota, Sanford is required to maintain a minimum net worth based on the Company Action Level of Risk-Based Capital. The Company Action Level of Risk-Based Capital is the required net worth as determined by factoring in Sanford’s risk levels, including asset and liability risk, interest rate risk, and other business risks. At June 30, 2013 Sanford has met the minimum net worth requirements.

18. INSURANCE CONTINGENCIES

PROFESSIONAL LIABILITY

Sanford has a primary layer of insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1,000 per claim and an annual aggregate limit of $3,000, as of June 30, 2013.

Additionally, there is a self-insured retention of $2,000 per claim and an annual aggregate of $14,000, as of June 30, 2013.

Above the primary layer of insurance, Sanford maintains excess insurance up to an annual aggregate of $75,000, as of June 30, 2013.

GROUP HEALTH INSURANCE BENEFIT

Sanford has a self-insurance program for health benefits covering all employees who elect to participate. Sanford accrues expense equal to its portion of estimated plan liabilities and has limited its losses on individual claims to $225 per employee per year through a stop-loss reinsurance agreement.

WORKERS COMPENSATION

Generally, Sanford is self-insured for the first $500 of any one workers' compensation occurrence. Amounts accrued as other current liabilities and charged to expense include plan expenses and estimated losses that will be paid based on prior claims experience. Sanford sites within the state of North Dakota are insured through the state operated North Dakota Worker's Compensation Insurance Program.

19. OTHER CONTINGENCIES

GUARANTEES

The Members of the Obligated Group have unconditionally guaranteed the principal and interest payments of loans made from proceeds of Series 1997 bonds to other nonprofit organizations. Sanford has relationships with these facilities in which it leases facilities from, manages the operations of, or leases land to the other nonprofit organizations. The guarantees are secured by mortgages on real and personal property of the nonprofit organizations. The principal amount of the guaranteed indebtedness at June 30, 2013 is $6,715.

Sanford has unconditionally guaranteed one-half of the principal and interest payments for debt incurred by Bismarck Cancer Center and Bismarck Air Medical, LLC. The guarantee is secured by a mortgage on real and personal property. The principal amount of the guaranteed indebtedness at June 30, 2013 is $1,072.

No liabilities related to the above guarantees have been recorded on Sanford's consolidated financial statements as of June 30, 2013 and 2012.

OTHER CONTINGENCIES

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers which could result in the imposition of significant fines and penalties, as well as significant repayment of previously billed and collected revenues for patient services. Sanford management believes that Sanford is in substantial compliance with current laws and regulations.

20. CHARITY CARE AND COMMUNITY SERVICES

Sanford provides care to patients who meet criteria defined under its charity care policy without charge or at amounts less than its established rates. In addition, Sanford provides a variety of benefits to the community including health education programs, health promotion activities, civic involvement, community funding, medical research, and other programs designed to improve the general standards of health of the community.

Sanford maintains records to identify and monitor the level of community benefit programs it provides. These records include management's estimate of the direct and indirect cost of services and supplies furnished for community benefit programs, cost of providing charity care, and public program payment deficits. A summary of the level of community benefit programs provided during the years ended June 30, is as follows:

	2013	2012
Cost of charity care	$ 46,922	$ 29,892
Unpaid cost of Medicaid	86,694	72,051
Community services	41,093	45,851
	$ 174,709	$ 147,794

21. FUNCTIONAL EXPENSES

Sanford provides general health care services to residents within its geographic location. Expenses related to providing these services included in the consolidated statements of operations for the years ended June 30, are as follows:

	2013	2012
Health care services	$ 2,624,837	$ 2,027,634
General and administrative	444,342	406,664
Fundraising	5,877	3,133
	$ 3,075,056	$ 2,437,431

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SUPPLEMENTAL INFORMATION

SANFORD

CONSOLIDATING SCHEDULE OF BALANCE SHEET INFORMATION
AS OF JUNE 30, 2013
(In thousands)

	Sanford Obligated Group	North Country Senior Living	Hillsboro Center Center	Sanford Living Center	Other Entities	Elimination Entries	Total
ASSETS							
CURRENT ASSETS:							
Cash	$ 68,775	$ 172	$ 2,186	$ 4,949	$ 9,344	$ -	$ 85,426
Short-term investments	2,122	-	-	-	9,807	-	11,929
Debt service funds held by trustee	3,963	-	174	-	-	-	4,137
Pledges receivable, less allowances	6,391	-			133	-	6,524
Accounts receivable, less allowances	518,301	-	997	2,172	22,825	(17,428)	526,867
Inventories	42,972	15	39	74	6,561	-	49,661
Other current assets	36,474	4	4	109	686	-	37,277
Total current assets	678,998	191	3,400	7,304	49,356	(17,428)	721,821
ASSETS WHOSE USE IS LIMITED:							
Board designated investments	736,581	-	-	573	41,493	-	778,647
Held by trustee	80,970		896	1,175	-		83,041
Restricted funds	735	-	-	-	800	-	1,535
Deferred compensation trusts	35,066	-	-	-	-	-	35,066
Total assets whose use is limited	853,352	-	896	1,748	42,293	-	898,289
PROPERTY AND EQUIPMENT — Net	1,215,619	10,356	10,060	21,360	62,323	-	1,319,718
OTHER ASSETS:							
Investment in joint ventures	36,652	-	-	-	2,797	(10,435)	29,014
Non-operating property	40,205	-	-	(1,295)	9,142	-	48,052
D.eferred financing costs	7,624	243	274	132	193	-	8,466
Goodwill	36,751	-	-	-	1,605	-	38,356
Notes receivable	21,742	-	-	-	382	-	22,124
Naming rights	8,704	-	-	-	-	-	8,704
Pledges receivable, less allowances	11,901	-	-	-	779	-	12,680
Other assets	33,745	-	-	-	12,835	(2,860)	43,720
Total other assets	197,324	243	274	(1,163)	27,733	(13,295)	211,116
TOTAL ASSETS	$ 2,945,293	$ 10,790	$ 14,630	$ 29,249	$ 181,705	$ (30,723)	$ 3,150,944

See notes to consolidating schedules.

SANFORD

CONSOLIDATING SCHEDULE OF BALANCE SHEET INFORMATION
AS OF JUNE 30, 2013
(In thousands)

	Sanford Obligated Group	North Country Senior Living	Hillsboro Center Center	Sanford Living Center	Other Entities	Elimination Entries	Total
LIABILITIES							
CURRENT LIABILITIES:							
Current maturities of long-term debt	$ 38,263	$ 266	$ 175	$ 441	$ 821	$ -	$ 39,966
Accounts payable	54,211	7,429	78	101	17,079	(9,670)	69,228
Third-party payer settlements payable	22,152	-	60	-	6,232	-	28,444
Accrued wages and payroll taxes	97,607	-	16	1,010	857	-	99,490
Accrued vacation benefits	70,702	-	195	1,377	2,921	-	75,195
Accrued defined contribution pension expense	12,523	-	-	18	138	-	12,679
Accrued self-insurance claims	19,561	-	-	-	435	(11,529)	8,467
Accrued interest	3,583	-	123	-	7	-	3,713
Other current liabilities	27,425	25	14	149	23,605	-	51,218
Total current liabilities, excluding long-term debt subject to short-term liquidity arrangements	346,027	7,720	661	3,096	52,095	(21,199)	388,400
Long-term debt subject to short-term liquidity arrangements	8,408	-	-	-	-	-	8,408
Total current liabilities, including long-term debt subject to short-term liquidity arrangements	354,435	7,720	661	3,096	52,095	(21,199)	396,808
OTHER LIABILITIES:							
Deferred compensation	53,242	-	-	-	-	-	53,242
Defined benefit pension	57,001	-	-	-	-	-	57,001
Other non-current liabilities	31,505	-	-	-	-	-	31,505
Total other liabilities	141,748	-	-	-	-	-	141,748
LONG-TERM DEBT, Less current maturities and long-term debt subject to short-term liquidity arrangements	681,164	12,479	12,246	19,492	3,884	-	729,265
Total liabilities	1,177,347	20,199	12,907	22,588	55,979	(21,199)	1,267,821
NET ASSETS:							
Unrestricted	1,579,793	(9,409)	1,723	6,661	108,322	(9,524)	1,677,566
Temporarily restricted	141,229	-	-	-	16,098	-	157,327
Permanently restricted	46,924	-	-	-	1,306	-	48,230
Total net assets	1,767,946	(9,409)	1,723	6,661	125,726	(9,524)	1,883,123
TOTAL LIABILITIES AND NET ASSETS	$ 2,945,293	$ 10,790	$ 14,630	$ 29,249	$ 181,705	$ (30,723)	$ 3,150,944

See notes to consolidating schedules.

SANFORD

CONSOLIDATING SCHEDULE OF BALANCE SHEET INFORMATION
AS OF JUNE 30, 2012
(In thousands)

	Sanford Obligated Group	North Country Senior Living	Other Entities	Elimination Entries	Total
ASSETS					
CURRENT ASSETS:					
Cash	$ 22,675	$ 374	$ 10,006	$ -	$ 33,055
Short-term investments	4,005	-	11,005	-	15,010
Debt service funds held by trustee	3,768	-	-	-	3,768
Pledges receivable, current portion	12,106	-	88	-	12,194
Accounts receivable, less allowances	433,328	-	19,770	(4,998)	448,100
Inventories	33,982	23	5,377	-	39,382
Other current assets	42,475	2	732	-	43,209
Total current assets	552,339	399	46,978	(4,998)	594,718
ASSETS WHOSE USE IS LIMITED:					
Board designated investments	786,735	-	39,076	-	825,811
Restricted funds	737	-	800	-	1,537
Deferred compensation trusts	30,553	-	-	-	30,553
Total assets whose use is limited	818,025	-	39,876	-	857,901
PROPERTY AND EQUIPMENT — Net	1,099,159	10,954	30,934	-	1,141,047
OTHER ASSETS:					
Investment in joint ventures	29,083	-	2,853	(9,036)	22,900
Non-operating property	37,610	-	8,521	-	46,131
Deferred financing costs	6,613	252	200	-	7,065
Goodwill	36,751	-	1,605	-	38,356
Notes receivable	15,689	-	326	-	16,015
Naming rights	7,741	-	-	-	7,741
Pledges receivable, non current portion	12,642	-	419	-	13,061
Other assets	22,965	-	426	(2,860)	20,531
Total other assets	169,094	252	14,350	(11,896)	171,800
TOTAL ASSETS	$ 2,638,617	$ 11,605	$ 132,138	$ (16,894)	$ 2,765,466

See notes to consolidating schedules.

SANFORD

CONSOLIDATING SCHEDULE OF BALANCE SHEET INFORMATION
AS OF JUNE 30, 2012
(In thousands)

	Sanford Obligated Group	North Country Senior Living	Other Entities	Elimination Entries	Total
LIABILITIES					
CURRENT LIABILITIES:					
Current maturities of long-term debt	$ 35,293	$ 127	$ 799	$ -	$ 36,219
Accounts payable	49,085	7,592	17,896	(8,769)	65,804
Third-party payer settlements payable	14,247	-	(77)	-	14,170
Accrued wages and payroll taxes	80,110	-	948	-	81,058
Accrued vacation benefits	59,334	-	2,441	-	61,775
Accrued defined contribution pension expense	8,608	-	28	-	8,636
Accrued self-insurance claims	19,776	-	193	-	19,969
Accrued interest	3,287	-	4	-	3,291
Other current liabilities	40,244	38	5,627	-	45,909
Total current liabilities, excluding long-term debt subject to short-term liquidigy arrangements	309,984	7,757	27,859	(8,769)	336,831
Long-term debt subject to short-term liquidity arrangements	8,928	-	-	-	8,928
Total current liabilities, including long-term debt subject to short-term liquidity arrangements	318,912	7,757	27,859	(8,769)	345,759
OTHER LIABILITIES:					
Deferred compensation	45,494	-	-	-	45,494
Defined benefit pension	57,076	-	-	-	57,076
Other non-current liabilities	27,130	-	-	-	27,130
Total other liabilities	129,700	-	-	-	129,700
LONG-TERM DEBT, Less current maturities and long-term debt subject to short-term liquidity arrangements	584,706	12,872	4,706	-	602,284
Total liabilities	1,033,318	20,629	32,565	(8,769)	1,077,743
NET ASSETS:					
Unrestricted	1,424,381	(9,024)	97,807	(8,125)	1,505,039
Temporarily restricted	139,724	-	1,491	-	141,215
Permanently restricted	41,194	-	275	-	41,469
Total net assets	1,605,299	(9,024)	99,573	(8,125)	1,687,723
TOTAL LIABILITIES AND NET ASSETS	$ 2,638,617	$ 11,605	$ 132,138	$ (16,894)	$ 2,765,466

See notes to consolidated financial statements.

SANFORD

CONSOLIDATING SCHEDULE OF STATEMENT OF OPERATIONS INFORMATION
AS OF JUNE 30, 2013
(In thousands)

	Sanford Obligated Group	North Country Senior Living	Hillsboro Center Center	Sanford Living Center	Other Entities	Elimination Entries	Total
OPERATING REVENUES:							
Net patient service revenue	$ 2,792,038	$ -	$ 3,567	$ 29,609	$ 39,502	$ (65,437)	$ 2,799,279
Provision for bad debts	(125,900)	-	(58)	(187)	(4,322)	-	(130,467)
Net patient service revenue less provision for bad debts	2,666,138	-	3,509	29,422	35,180	(65,437)	2,668,812
Premium revenue	-	-	-	-	144,308	-	144,308
Other operating revenue	207,619	2,885	439	235	82,821	(25,886)	268,113
Net assets released from restrictions for operations	22,533	-	-	-	2,136	-	24,669
Total operating revenues	2,896,290	2,885	3,948	29,657	264,445	(91,323)	3,105,902
OPERATING EXPENSES:							
Salaries and benefits	1,785,614	1,286	2,163	22,074	62,707	(12,209)	1,861,635
Supplies	504,911	253	321	2,017	26,827	(14)	534,315
Purchased services and other	384,598	509	824	3,111	53,329	(14,361)	428,010
Medical claims	430	-	-	-	129,217	(64,739)	64,908
Depreciation and amortization	146,437	612	635	1,715	5,323	-	154,722
Interest	29,159	609	347	1,121	230	-	31,466
Total operating expenses	2,851,149	3,269	4,290	30,038	277,633	(91,323)	3,075,056
INCOME FROM OPERATIONS	45,141	(384)	(342)	(381)	(13,188)	-	30,846
NON-OPERATING (EXPENSE) INCOME:							
Investment return	(5,068)	-	-	31	(342)	-	(5,379)
Change in interest rate swap valuation	1,680	-	-	-	-	-	1,680
Loss on extinguishment of debt	-	-	-	-	-	-	-
Other expenses and losses	(10,999)	-	-	-	(2,566)	(72)	(13,637)
Net non-operating (expense) income	(14,387)	-	-	31	(2,908)	(72)	(17,336)
EXCESS OF REVENUE OVER EXPENSES, before contributions from affiliations	30,754	(384)	(342)	(350)	(16,096)	(72)	13,510
Contributions received in connection with affiliations	113,262	-	1,747	9,469	(3,192)	(1,227)	120,059
EXCESS OF REVENUES OVER EXPENSES	144,016	(384)	1,405	9,119	(19,288)	(1,299)	133,569
Net assets released from restrictions for acquisitions of property and equipment	4,942	-	-	-	384	-	5,326
Pension plan related changes other than net periodic plan expense	33,632	-	-	-	-	-	33,632
Transfers	(27,460)	3	364	(2,788)	29,981	(100)	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 155,130	$ (381)	$ 1,769	$ 6,331	$ 11,077	$ (1,399)	$ 172,527

See notes to consolidating schedules.

SANFORD

CONSOLIDATING SCHEDULE OF STATEMENT OF OPERATIONS INFORMATION
AS OF JUNE 30, 2012
(In thousands)

	Sanford Obligated Group	North Country Senior Living	Other Entities	Elimination Entries	Total
OPERATING REVENUES:					
Net patient service revenue	$ 2,320,629	$ -	$ 34,067	$ (53,982)	$ 2,300,714
Provision for bad debts	(96,257)	-	(3,525)	-	(99,782)
Net patient service revenue less provision for bad debts	2,224,372	-	30,542	(53,982)	2,200,932
Premium revenue	-	-	136,702	-	136,702
Other operating revenue	122,198	2,765	49,629	(10,622)	163,970
Net assets released from restrictions for operations	14,801	-	340	-	15,141
Total operating revenues	2,361,371	2,765	217,213	(64,604)	2,516,745
OPERATING EXPENSES:					
Salaries and benefits	1,425,062	1,085	46,848	(9,866)	1,463,129
Supplies	381,753	231	12,932	(11)	394,905
Purchased services and other	326,388	500	36,027	(749)	362,166
Medical claims	-	-	123,520	(53,978)	69,542
Depreciation and amortization	114,794	633	4,004	-	119,431
Interest	27,400	671	187	-	28,258
Total operating expenses	2,275,397	3,120	223,518	(64,604)	2,437,431
INCOME FROM OPERATIONS	85,974	(355)	(6,305)	-	79,314
NON-OPERATING (EXPENSE) INCOME:					
Investment return	26,801	-	1,113	-	27,914
Change in interest rate swap valuation	(677)	-	-	-	(677)
Loss on extinguishment of debt	(2,934)	-	-	-	(2,934)
Other expenses and losses	(17,204)	-	(1,033)	-	(18,237)
Net non-operating (expense) income	5,986	-	80	-	6,066
EXCESS OF REVENUE OVER EXPENSES, before contributions from affiliations	91,960	(355)	(6,225)	-	85,380
Contributions received in connection with affiliations	953	-	5,023	-	5,976
EXCESS OF REVENUES OVER EXPENSES	92,913	(355)	(1,202)	-	91,356
Net assets released from restrictions for acquisitions of property and equipment	5,010	-	-	-	5,010
Pension plan related changes other than net periodic plan expense	(22,499)	-	-	-	(22,499)
Transfers	(7,247)	-	7,424	(177)	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 68,177	$ (355)	$ 6,222	$ (177)	$ 73,867

See notes to consolidating schedules.

SANFORD

NOTES TO CONSOLIDATING SCHEDULES
AS OF AND FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

1. OBLIGATED GROUP

Sanford and certain of its controlled entities have entered into a Master Trust Indenture dated as of July 1, 1997, as amended. In addition, in connection with the issuance of the South Dakota Health and Educational Facilities Authority Revenue Bonds, Series 2012E, Sanford West, Sanford Bismarck and Sanford West Foundation became Members of the Obligated Group under the Master Indenture pursuant to the certain Eighteenth Supplemental Master Trust Indenture dated October 1, 2012. Members of the Obligated Group are jointly and severally obligated for the debt issued and guaranteed under the Master Trust Indenture. Sanford entities that make up the Obligated Group as of June 30, 2013 are as follows:

Sanford	Sanford Medical Center	Sanford Medical Center Thief River Falls
Sanford Health	Sanford Medical Center Fargo	Sanford Medical Center Mayville
Sanford North	Sanford Bismarck	Sanford Home Health
Sanford West	Sanford Health of Norther Minnesota	Sanford Health Foundation
Sanford Health Network	Sanford Clinic	Sanford Health Foundation North
Sanford Health Network North	Sanford Clinic North	Sanford West Foundation

2. BASIS OF PRESENTATION

The consolidating schedule of balance sheet information and consolidating schedule of statement of operations information are presented for additional analysis of various transactions within the overall organization. The amounts presented for Sanford Obligated Group and Sanford Health of Northern Minnesota do not include the Parent's interests in controlled entities on a consolidated basis.

As of June 30, 2013 and 2012, investment in joint ventures of the Sanford Obligated Group included $9,136 and $9,036 of net assets of wholly-owned subsidiaries of Sanford. All inter-company balances and transactions have been eliminated for consolidating purposes.

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