Combined Financial Statements and Supplementary Information

Memorial Hermann Health System
Years Ended June 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

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Memorial Hermann Health System

Combined Financial Statements and Supplementary Information

Years Ended June 30, 2013 and 2012

Contents

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Report of Independent Auditors

The Board of Directors
Memorial Hermann Health System

Report on the Financial Statements

We have audited the accompanying combined financial statements of Memorial Hermann Health System (the Health System), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Health System at June 30, 2013 and 2012, and the combined results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the financial statements, the Health System changed the presentation of the provision for bad debts as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities,* effective July 1, 2012.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying combined consolidating balance sheets and combined consolidating statements of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

October 3, 2013

Memorial Hermann Health System

Combined Balance Sheets

	June 30 2013	2012
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents, including $10,704 and $15,887 of assets limited as to use as of 2013 and 2012, respectively	**$ 447,695**	$ 348,300
Investments	**1,134,200**	1,083,787
Patient accounts receivable, net of allowances (2013 – $733,982; 2012 – $637,779)	**484,850**	445,663
Other current assets	**168,866**	109,287
Total current assets	**2,235,611**	1,987,037
Assets limited as to use, less current portion	**172,274**	196,570
Property, plant, and equipment, net	**2,205,407**	2,270,280
Other assets	**77,056**	77,058
Total assets	**$ 4,690,348**	$ 4,530,945
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 159,143**	$ 147,759
Accrued payroll and related expenses	**190,815**	179,707
Other accrued expenses	**100,357**	95,492
Current portion of long-term debt, including capital lease obligations	**40,258**	45,480
Long term debt subject to liquidity	**103,585**	–
Total current liabilities	**594,158**	468,438
Long-term debt, including capital lease obligations	**1,640,892**	1,716,071
Other long-term obligations	**219,435**	332,023
Total liabilities	**2,454,485**	2,516,532
Net assets, including noncontrolling interest of $12,399 and $10,846 in 2013 and 2012, respectively	**2,235,863**	2,014,413
Total liabilities and net assets	**$ 4,690,348**	$ 4,530,945

See accompanying notes.

Memorial Hermann Health System

Combined Statements of Operations and Changes in Net Assets

	Year Ended June 30	
	2013	**2012**
	(In Thousands)	
Revenues, gains, and other support:		
Net patient service revenue before bad debt	**$ 4,023,005**	$ 3,730,495
Provision for bad debt	**(634,172)**	(542,930)
Net patient service revenue	**3,388,833**	3,187,565
Other revenue	**189,657**	163,778
Total revenues, gains, and other support	**3,578,490**	3,351,343
Expenses:		
Salaries, benefits, and related personnel costs	**1,561,732**	1,420,610
Services and other	**972,613**	904,994
Supplies and medicines	**581,640**	530,775
Depreciation and amortization	**220,866**	221,125
Interest	**75,787**	81,357
Total expenses	**3,412,638**	3,158,861
Operating income before recoveries attributable to hurricane	**165,852**	192,482
Recoveries attributable to hurricane	**–**	1,828
Operating income	**165,852**	194,310
Nonoperating activities:		
Investment gains, net	**64,663**	42,363
Interest rate swap agreements	**18,739**	(85,237)
Loss on bond refundings	**(83,481)**	–
Other income, net	**4,048**	2,283
Revenues in excess of expenses	**169,821**	153,719
Revenues in excess of expenses attributable to noncontrolling interest	**(27,186)**	(26,736)
Revenues in excess of expenses attributable to the Health System	**142,635**	126,983
Other changes in net assets:		
Change in unfunded pension obligation	**55,162**	(46,548)
Contributions and grants received and other changes in net assets, net	**22,100**	8,050
Change in noncontrolling interests	**1,553**	1,682
Change in net assets	**221,450**	90,167
Net assets at beginning of year	**2,014,413**	1,924,246
Net assets at end of year	**$ 2,235,863**	$ 2,014,413

See accompanying notes.

Memorial Hermann Health System

Combined Statements of Cash Flows

	Year Ended June 30 2013	2012
	(In Thousands)	
Operating activities		
Cash received for patient services	**$ 3,349,646**	$ 3,143,966
Cash paid to or on behalf of employees	**(1,444,925)**	(1,441,939)
Cash paid for supplies and services	**(1,777,695)**	(1,439,909)
Other receipts from operations	**125,438**	159,876
Investment gains (losses) realized	**67,935**	(29,152)
Interest paid	**(74,319)**	(81,755)
Net cash provided by operating activities	**246,080**	311,087
Investing activities		
Capital expenditures, net	**(155,993)**	(168,141)
Change in assets limited as to use	**304**	(26,502)
Change in investments	**(30,497)**	(366,309)
Other	**(562)**	24
Net cash used in investing activities	**(186,748)**	(560,928)
Financing activities		
Proceeds of issuance of long-term debt and note payable	**518,520**	197,269
Payments on long-term debt and note payable	**(45,643)**	(229,408)
Refunding of long-term debt	**(451,600)**	–
Restricted contributions	**40,956**	31,492
Deferred financing costs	**3,463**	–
Noncontrolling interest	**(25,633)**	(25,054)
Net cash provided by (used in) financing activities	**40,063**	(25,701)
Net increase (decrease) in cash and cash equivalents	**99,395**	(275,542)
Cash and cash equivalents at beginning of year	**348,300**	623,842
Cash and cash equivalents at end of year	**$ 447,695**	$ 348,300
Supplemental information – reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	**$ 221,450**	$ 90,167
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**220,866**	221,125
Unrealized net gain on investments	**(19,515)**	(9,761)
Change in unfunded pension losses	**(55,162)**	46,548
Loss on bond refunding	**83,481**	–
Other changes in net assets	**8,268**	17,293
Change in patient accounts receivable	**(39,187)**	(43,599)
Change in other assets	**(59,015)**	(25,653)
Change in accounts payable, accrued payroll, and other accrued expenses	**(56,124)**	(20,250)
Change in other long-term obligations	**(58,982)**	35,217
	24,630	220,920
Net cash provided by operating activities	**$ 246,080**	$ 311,087
Supplemental information for noncash activities		
Additions to property, plant, and equipment obtained through capital leases	**$ 6,865**	$ 5,825

See accompanying notes.

Memorial Hermann Health System

Notes to Combined Financial Statements

June 30, 2013

1. Mission and Organization

On September 6, 2012, the Board of Directors of the Memorial Hermann Healthcare System approved a corporate reorganization, which became effective on January 1, 2013. Under this reorganization, Memorial Hermann Hospital System was merged with Memorial Hermann Healthcare System, with the successor renamed Memorial Hermann Health System (the Health System). The Health System Board of Directors now exercises governance control for the Health System and retains significant reserved powers regarding its affiliates. Several subsidiary organizations have also been merged to simplify the Health System's organizational structure. All of these mergers were between Health System entities; there were no external organizations involved and no transfer of assets outside of the Health System. The tax identification number of the former Memorial Hermann Hospital System (now Health System) and the hospital provider numbers survived.

The Health System, a Texas nonprofit membership corporation, controls and coordinates the activities of certain other affiliates. The Health System is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The System now owns and operates 10 nonsectarian general acute care hospitals (including Memorial Hermann Texas Medical Center, the primary teaching hospital for The University of Texas Medical School at Houston), a research and rehabilitation hospital (TIRR) in the Texas Medical Center, a Medicare-certified home health agency, various professional office buildings, and a comprehensive ambulatory care network of facilities and services – all serving to position Memorial Hermann Health System as the market-share leader in the greater Houston, Texas, area. The Health System includes one of the nation's largest Independent Practice Association (IPA) models, through which nearly 3,000 physicians are clinically integrated to the Health System for clinical practice standards, Accountable Care participation, and commercial payor contracting arrangements. Additionally, the Health System is supported by the Memorial Hermann Foundation (the Foundation). The combined financial statements include the accounts of the Health System and its controlled affiliates. All significant intercompany accounts and transactions have been eliminated.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Because of the subjectivity inherent in this process, actual results may differ from those estimates.

2. Significant Accounting Policies (continued)

Subsequent Events

The Health System evaluates the impact of subsequent events, events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the combined financial statements as of the balance sheet date or disclosure in the notes to the combined financial statements. The Health System evaluated events occurring subsequent to June 30, 2013 through October 3, 2013, the date on which the accompanying combined financial statements were issued.

Net Assets and Contributions

To ensure compliance with restrictions placed on the resources available to the Health System, the Health System's accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting into funds established according to their nature and purposes. In the financial statements, funds that have similar characteristics have been combined into three net asset categories: permanently restricted, temporarily restricted, and unrestricted.

- Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently but permit the Health System to use the income derived from the donated assets for donor-specified purposes.

- Temporarily restricted net assets contain donor-imposed restrictions that permit the Foundation to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Health System.

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired or been met. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions.

At June 30, 2013 and 2012, the Health System had $88,579,000 and $82,858,000, respectively, in temporarily restricted net assets and $9,076,000 and $9,060,000, respectively, in permanently restricted net assets. For the years ended June 30, 2013 and 2012, the Health System received $40,569,000 and $31,492,000, respectively, in restricted contributions and income. During 2013 and 2012, $40,488,000 and $29,052,000, respectively, in net assets were used for their restricted purpose.

2. Significant Accounting Policies (continued)

Unrestricted and restricted donations are recognized when received. Unrestricted and restricted pledges are reported as revenue in the period the pledge is made at the present value of estimated future cash flows. Amortization of the discount is included in contribution income. Pledges are recorded net of an allowance for uncollectibles. This allowance is determined based upon historical collection and write-off experience. Donor-restricted pledges and donations are recorded in the appropriate donor-restricted fund until restrictions are met, at which time they are contributed to the affiliate beneficiary. Gifts of property other than cash are recorded at fair market value at the dates the gifts are received.

The Health System holds donor-restricted endowment funds established primarily to fund specified activities for and within the System and the medical community as a whole. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Contributions are recorded as revenue at the present value of estimated future cash flows when an unconditional promise is received. At June 30, 2013 and 2012, the Health System had $22,601,000 and $20,432,000, respectively, in pledges receivable, net of discount and allowance for uncollectibles of $3,404,000 and $7,351,000, respectively. Pledges receivable are recorded as assets limited as to use in the accompanying combined balance sheets and are due, based on gross pledges, as follows:

	Pledges
June 30, 2014	$ 9,720,000
June 30, 2015	5,936,000
June 30, 2016	4,830,000
June 30, 2017	3,190,000
Thereafter	2,329,000

Grant Proceeds

Grant proceeds are recorded in the combined statements of operations and changes in net assets in the period the grant is received. During fiscal year 2013, the Health System recorded receipts of $11,240,000 related to monies received from the Federal Emergency Management Agency related to costs incurred by the Health System in connection with Tropical Storm Allison, which occurred in 2001. These amounts have been included as an increase to contributions and grants

2. Significant Accounting Policies (continued)

received and other changes in net assets in the accompanying combined statement of operations and changes in net assets.

Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at the estimated net realizable amounts from patients or third-party payors for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Patient accounts receivable are reported net of estimated allowances for contractual allowances, bad debt, and other discounts. The Health System's recorded allowances for bad debt are based on expected net collections, after contractual adjustments, primarily from patients. Management routinely assesses these recorded allowances relative to changes in payor mix, cash collections, write-offs, recoveries, and market dynamics. Unpaid accounts are written off as bad debts upon reaching delinquent status. Charity care accounts are written off as identified or qualified under the Health System's charity care policy. The Health System's concentration of credit risk with respect to patient accounts receivable is limited due to the variety of customers and payors.

Self-pay revenues are derived primarily from patients who do not have any form of health coverage. The revenues associated with self-pay patients are generally reported at the Health System's gross charges. The Health System evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other governmental assistance programs, as well as the Health System's policy for charity care. The Health System provides care without charge to certain patients who qualify under its charity care policy. The Health System's management estimates its costs of care provided under its charity care programs utilizing a calculated ratio of costs to gross charges multiplied by the Health System's gross charity care charges provided.

A summary of activity in the Health System's allowance for doubtful accounts is as follows (in thousands):

	Balances at Beginning of Year	**Provision for Bad Debt, Net of Recoveries**	**Accounts Written Off**	**Balances at End of Year**
Year ended June 30, 2013	**$ 637,779**	**$ 634,172**	**$ (537,969)**	**$ 733,982**
Year ended June 30, 2012	574,471	542,930	(479,622)	637,779

2. Significant Accounting Policies (continued)

For participants in the Medicare and Medicaid programs and certain managed care programs, the Health System ultimately collects amounts that are generally less than standard charges. Medicare and Medicaid are federal and state programs generally designed to provide services to elderly and indigent patients. Medicare and Medicaid together constituted 49% of the Health System's standard charges in 2013 and 2012.

While laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation, the Health System intends to be in compliance with all applicable laws and regulations and, to that end, has implemented a comprehensive organization-wide corporate compliance policy. The Health System is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing.

Certain payments for services provided under the Medicare and Medicaid programs and other organizations are subject to review of the medical necessity of admission and propriety of discharge, diagnosis, and coding. As part of the Tax Relief and Health Care Act of 2006, Congress directed the expansion of the Recovery Audit Contractors (RAC) reviews. Management believes adequate allowance has been provided for possible adjustments that might result from retrospective billing reviews, including the ongoing or future RAC reviews.

Annual retroactive settlements with the Medicare and Medicaid programs are subject to review by appropriate governmental authorities or their agents. Settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Accruals for possible settlements are calculated based on historical experience.

The Health System's Medicare and Medicaid cost reports have been audited by the applicable fiscal intermediary generally through June 30, 2009. However, certain prior cost reports have been reopened by the fiscal intermediary for further review. Additionally, from time to time, the Health System appeals decisions of the fiscal intermediary in order to recover funds it believes are appropriately due to the Health System for services rendered to Medicare and/or Medicaid beneficiaries. Processes related to recovering these funds are often long and complex. The Health System's policy is to record any funds received from appeals as income in the year in which the notice of cost report settlement is received.

2. Significant Accounting Policies (continued)

At June 30, 2013 and 2012, aggregate accruals and allowances for possible settlements, and pending reviews, as discussed above, of $78,179,000 and $88,283,000, respectively, are included in the accompanying combined balance sheets in other accrued expenses (2013: $9,933,000; 2012: $13,018,000) and other long-term obligations (2013: $68,246,000; 2012: $75,265,000). It is reasonably possible that these estimates could differ from actual settlements and, thus, change in the near term by material amounts.

During 2013 and 2012, the Health System recognized $30,474,000 and $31,845,000, respectively, in net patient service revenue from differences between estimated and actual cost report settlements and appeals. In addition, in May 2012, the Health System recognized $16,000,000 in net patient service revenue relating to the Medicare Rural Floor Budget Neutrality settlement (Settlement). This Settlement with the Centers for Medicare and Medicaid Services involved approximately 2,200 hospitals nationwide and was made to resolve a challenge made by the plaintiff hospitals for underpayment of inpatient Medicare services dating back to 1999.

Previously, the federal Medicaid rules allowed for hospitals to be reimbursed for some of the uncompensated cost of treating Medicaid and uninsured patients up to an Upper Payment Limit (UPL). UPL programs act as mechanisms to draw federal Medicaid dollars into local communities. The Texas Medicaid program has chosen a county-specific UPL strategy to receive supplemental federal matching funds. During 2012, the proposed changes to Medicaid in Texas under the Medicaid Transformation and Quality Improvement Program and the March 2012 legislatively-mandated expansion of Managed Medicaid resulted in the discontinuation of the UPL supplemental payment program in the state. The new programs created going forward to continue these supplemental payments are Uncompensated Care (UC) and Delivery System Reform Incentive Payments (DSRIP). The historic UPL program continued to make distributions throughout fiscal year 2012. Medicaid supplemental funds, which include Medicaid Disproportionate Share and UPL payments, net of assessments, of approximately $104,648,000 and $72,433,000 were recorded in 2013 and 2012, respectively. These funds are earned as a result of an increasing indigent patient population that is served by the Health System. Net patient service revenue includes all Medicaid supplemental funds as a reduction of contractual allowances. At June 30, 2013 and 2012, the Health System has receivables recorded of $80,392,000 and $23,900,000 for Medicaid supplement payments earned, respectively. These amounts are included in other current assets in the accompanying combined balance sheets.

2. Significant Accounting Policies (continued)

The Health System has also entered into multiple payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations (Managed Care companies). The basis for payment to the Health System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined fee schedules for episodic services. Together, the revenues derived from under these agreements constituted 38% of the Health System's standard charges in 2013 and 2012. During 2012, the Health System recognized $48,027,000, respectively, in net settlements received from Managed Care companies for adjudication of amounts owed to the Health System related to underpaid or previously denied claims over a period of several years. There were no significant net settlements received from Managed Care companies during 2013.

The Health System's gross revenues by payor and approximate percentages of revenues were as follows for the years ended June 30 (in thousands):

	2013		**2012**	
	Amount	**Ratio**	**Amount**	**Ratio**
Managed Care	**$ 4,257,500**	**38%**	$ 3,799,548	38%
Medicare	**3,982,435**	**35**	3,536,299	35
Medicaid	**1,539,862**	**14**	1,370,630	14
Self Pay	**1,111,495**	**10**	962,514	10
Other	**380,648**	**3**	330,029	3
Total	**$ 11,271,940**	**100%**	$ 9,999,020	100%

2. Significant Accounting Policies (continued)

The Health System's gross accounts receivable by payor by percentage of total gross accounts receivable were as follows for the years ended June 30:

	2013	2012
Managed Care	**26%**	26%
Medicare	**15**	15
Medicaid	**8**	8
Self Pay	**45**	46
Other	**6**	5
Total	**100%**	100%

The Health System's gross accounts receivable by aging category is as follows for the years ended June 30:

	2013				
	Managed Care	**Medicare**	**Medicaid**	**Self Pay**	**Other**
0-60	**60%**	**81%**	**80%**	**34%**	**56%**
61-120	**11%**	**7%**	**4%**	**24%**	**13%**
121-180	**8%**	**3%**	**3%**	**21%**	**7%**
>180	**21%**	**9%**	**13%**	**21%**	**24%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**

	2012				
	Managed Care	**Medicare**	**Medicaid**	**Self Pay**	**Other**
0-60	62%	85%	83%	32%	57%
61-120	11%	6%	5%	24%	13%
121-180	8%	3%	4%	20%	7%
>180	19%	6%	8%	24%	23%
Total	100%	100%	100%	100%	100%

Managed care accounts receivable over 180 days primarily are a result of the lengthy adjudication process for accounts which have been initially underpaid by managed care payors and for which management is pursuing additional collections.

2. Significant Accounting Policies (continued)

Cash Equivalents

Liquid investments with an original maturity of three months or less are reported as cash equivalents.

Investments and Investment Income

Investments are reflected as investments or assets limited as to use in the combined balance sheets and include fixed income, equity securities, and alternative investments. Fixed income includes U.S. government securities, agency mortgage-backed securities, and corporate obligations in pooled funds and separate accounts. Equity securities include domestic and international equities in pooled funds and separate accounts. Pooled funds are professionally managed and include institutional mutual funds, fixed income funds, equity funds, and commingled accounts. Investments in equity securities with readily determinable fair values and all debt securities are stated at fair value.

Alternative investments include ownership interests in hedge funds and limited partnerships that may employ various investment strategies through the use of publicly traded securities, market neutral arbitrage, floating rate loans and debt securities, and fixed income swaps. The Health System's alternative investments include certain investments whose reported values had been estimated by fund managers in the absence of readily available market values or cannot otherwise be substantiated. Because of the inherent uncertainty of valuations, fund managers' estimates of fair value may differ from the values that would have been used had a ready market for the securities existed, and the differences could be material. Additionally, risks in certain of the Health System's alternative investments include limited transparency where funds are not required to disclose the holdings in their portfolios to the Health System and limitations on liquidity as funds may impose lock-up periods or hold-back provisions that limit the Health System's ability to redeem those investments. At June 30, 2013 and 2012, the Health System's investments in alternative investments are $9,019,000 and $6,701,000, respectively.

Assets limited as to use are funds legally restricted by bond indentures, internally restricted in connection with self-insurance programs, externally restricted by donor specifications, restricted by resident agreements, or internally restricted for charity care or other purposes. Assets limited as to use are classified as noncurrent assets, except for assets limited as to use that are required to meet current liabilities which are classified as current assets. Investments have been classified as current assets based on the Health System's intent and ability to utilize these assets to meet current obligations, capital, and other cash flow needs.

2. Significant Accounting Policies (continued)

Substantially all of the Health System's investments are designated as trading investments. Investment income, including realized and unrealized gains and losses on investments, interest and dividend income, and equity in earnings of alternative investments, is recorded as a nonoperating activity and included in revenues in excess of expenses in the accompanying combined statements of operations and changes in net assets, unless the income or loss is restricted by donor or law. Net purchases and sales of investments are reported as a component of net cash used in investing activities in the accompanying combined statements of cash flows as the net proceeds were used primarily to fund the Health System's acquisition of capital assets.

Deferred Financing Costs

Costs associated with the issuance of revenue bonds have been capitalized and included with other assets and are amortized over the relevant terms of the respective bond issues on a straight-line basis, which approximates the effective-interest method. Deferred financing costs net of accumulated amortization were $9,482,000 and $10,542,000 as of June 30, 2013 and 2012, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are carried at cost or fair value at the time of donation and include expenditures for new facilities and equipment and those expenditures that substantially increase the useful life of existing facilities and equipment. Ordinary maintenance and repairs are charged to expense when incurred. Depreciation is provided using the straight-line method over 20 to 40 years for buildings, 5 to 10 years for improvements (limited to the term of the related lease, if applicable), and 3 to 12 years for equipment. Assets accounted for as capital leases are amortized over the terms of the respective leases, and such amortization is included in depreciation and amortization expense. When events, circumstances, or operating results indicate that the carrying values of certain long-lived assets might be impaired, the Health System prepares undiscounted projections of cash flows expected to result from the use of the assets and their eventual disposition. If the projections indicate that the recorded amounts are not expected to be recoverable, such amounts are reduced to estimated fair value. Fair value may be estimated based upon internal evaluations that include quantitative analysis of revenues and cash flows, reviews of recent sales of similar assets, and independent appraisals.

2. Significant Accounting Policies (continued)

Property and equipment to be disposed of are reported at the lower of the carrying amounts or fair value less costs to sell or close. The estimates of fair value are usually based upon recent sales of similar assets and market responses based upon discussions with and offers received from potential buyers.

Interest Rate Swap Agreements

The Health System records net interest payments under swaps as a component of interest rate swap agreements on the combined statements of operations and changes in net assets.

Investments in Joint Ventures

The Health System has entered into multiple joint venture and partnership arrangements for the provision of medical services to patients and the development and construction of certain facilities, including medical office buildings adjacent to its hospitals. For those ventures where the Health System has a controlling interest through majority ownership, management control, or both, the ventures' assets, liabilities, and operating results have been consolidated into the combined financial statements of the Health System. At June 30, 2013 and 2012, the Health System has recognized net assets attributable to noncontrolling interest of $12,399,000 and $10,846,000, respectively, representing the venture partners' interest in the equity and undistributed earnings of the consolidated ventures. For those ventures where the Health System does not maintain a controlling interest, the Health System accounts for its investment under the equity method of accounting. At June 30, 2013 and 2012, the Health System had investments representing its equity in these unconsolidated ventures of $5,060,000 and $8,175,000, respectively, recorded in other assets. For the years ended June 30, 2013 and 2012, the Health System recognized a net gain of $1,686,000 and $3,349,000, respectively, recorded in investment gains in the accompanying combined statements of operations and changes in net assets relating to unconsolidated ventures.

Goodwill

The Health System records goodwill arising from a business combination as the excess of the purchase price and related costs over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed. At June 30, 2013 and 2012, the Health System had goodwill of $43,435,000 and $39,329,000, respectively, which relates to the purchase of several

2. Significant Accounting Policies (continued)

entities from 2009 to 2013. There was no impairment of goodwill or other indefinite-lived intangible assets recognized in 2013 or 2012. Beginning on July 1, 2011, the amortization of goodwill ceased and goodwill is tested at least annually for impairment at the reporting unit level. Impairment is the condition that exists when the carrying value of goodwill exceeds its implied fair value.

Meaningful Use of Certified Electronic Health Record (EHR)

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period ending in 2016. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. Providers must demonstrate continued meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

The Health System accounts for EHR incentive payments as other operating revenue. The Health System utilizes a grant accounting model to recognize EHR incentive revenues and records incentive revenue ratably throughout the incentive reporting period when it is reasonably assured that the respective eligible provider will meet the meaningful use objectives for the reporting period and that the grants will be received. The EHR reporting period for hospitals is based on the federal fiscal year, which is from October 1 through September 30. The Health System attested for meaningful use and received incentive payments of approximately $8,177,000 and $22,621,000 during the years ended June 30, 2013 and 2012, respectively. In addition, the Health System has recorded a receivable at June 30, 2013 of $9,113,000 related to Medicare EHR for which the Health System is reasonably assured that it will meet the meaningful use objectives for the reporting period. There were no receivables recorded at June 30, 2012. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. In addition, the Health System’s compliance with the meaningful use criteria is subject to audit by the federal government.

2. Significant Accounting Policies (continued)

Taxes

The Health System, and certain other affiliates are Texas not-for-profit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The Health System owns certain taxable subsidiaries and engages in certain activities that are unrelated to its exempt purpose and, therefore, subject to tax.

Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the accompanying combined balance sheets. The tax returns are subject to Internal Revenue Service (IRS) review for three years subsequent to the dates they are filed. There are no ongoing IRS tax reviews as of June 30, 2013. The Health System has net operating losses (NOL) tax carryforwards that will expire between 2014 and 2027. Due to the age of these NOLs and the fact that management is uncertain that the full amount of the NOLs will be realized in the future, no deferred tax asset has been recorded.

Performance Indicator

The Health System's combined statements of operations and changes in net assets contain a performance indicator titled revenues in excess of expenses. Revenues in excess of expenses include the Health System's results from operations and nonoperating activities, and exclude changes in noncontrolling interest, changes in unfunded pension obligations, restricted contributions and grants received, and certain other changes in net assets. Health System activities directly related to the furtherance of the Health System's purpose, as discussed in Note 1, are considered to be operating activities. Other activities that result in gains or losses are considered to be nonoperating and primarily include investment earnings, gains/losses on bond refinancing, and other nonoperating gains/losses, including unusual or infrequent recoveries or costs not directly related to operating activities.

Accounting Pronouncements Adopted

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. Previously, entities were required to test goodwill for impairment, on at least an annual basis, by first comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the resulting fair value of a reporting unit was less than its

2. Significant Accounting Policies (continued)

carrying amount, then the second step of the test would be performed to measure the amount of the impairment loss, if any. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. Additionally, ASU 2011-08 permits an entity to resume performing the qualitative assessment in any subsequent period. The Health System adopted the provisions of ASU 2011-08 in 2012.

In January 2010, the FASB released ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 was issued to improve disclosure requirements related to the fair value measurements and disclosures topic (overall Subtopic 820-10) of the Accounting Standards Codification (ASC). The new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010. Effective July 1, 2011, the Health System adopted this guidance and has included the additional required disclosures. The adoption of ASU 2010-06 did not have an impact on the overall results of operations, financial position, or cash flows.

In August 2010, the FASB issued ASU 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure.* ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This ASU is effective for fiscal years beginning after December 15, 2010, with retrospective application required. Effective July 1, 2011, the Health System adopted this guidance and has included the additional required retrospective disclosures. The adoption of ASU 2010-23 did not have an impact on the overall results of operations, financial position, or cash flows.

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. The amendments in the ASU clarify that a health entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries.

2. Significant Accounting Policies (continued)

This ASU is effective for fiscal years beginning after December 15, 2010. Effective July 1, 2011, the Health System adopted this guidance. The adoption of ASU 2010-24 did not have a material impact on the overall results of operations, financial position, or cash flows.

In July 2011, the FASB released ASU 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.* ASU 2011-07 requires health care entities to change the presentation of their statements of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction for patient service revenue (net of contractual allowances and discounts). Additionally, enhanced disclosures will be required surrounding the entity's policies for recognizing revenue and assessing bad debts. ASU 2011-07 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2010. Effective July 1, 2012, the Health System adopted this guidance.

Reclassifications

Certain amounts have been reclassified in the prior year's combined financial statements to conform with the current year presentation. The net interest payments associated with the Health System's interest rate swap agreements are now presented as a component of nonoperating activities on the accompanying combined statement of operations and changes in net assets.

3. Community Service

In accordance with its purpose and values, the Health System is committed to providing high-quality, cost-effective health services to the community, including such underserved groups as the indigent and the elderly. Self-pay revenues are derived primarily from patients who do not have any form of health coverage. The revenues associated with self-pay patients are generally reported at the Health System's gross charges. The Health System evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, or qualifications for Medicaid or other governmental assistance programs, as well as the Health System's policy for charity care. The Health System provides care without charge to certain patients who qualify under the local charity care policy. For the years ended June 30, 2013 and 2012, the Health System estimates that its costs of care provided under its charity care programs approximated $135,945,000 and $131,050,000, respectively. The Health System's management estimates its costs of care provided under its

3. Community Service (continued)

charity care programs utilizing a calculated ratio of costs to gross charges multiplied by the Health System's gross charity care charges provided. The Health System's gross charity care charges include only services provided to patients who are unable to pay and qualify under the Health System's charity care policies. To the extent the Health System receives reimbursement through the various governmental assistance programs in which it participates to subsidize its care of indigent patients, the Health System does not include these patient charges in its cost of care provided under its charity care program. Additionally, the Health System does not report a charity care patient's charges in revenues or in the provision for doubtful accounts as it is the Health System's policy not to pursue collection of amounts related to these patients. In addition to charity care provided to the community, the Health System's unreimbursed cost for the treatment of Medicaid patients was $240,964,000 and $182,094,000 for the fiscal years ended June 30, 2013 and 2012, respectively.

In addition, the Health System operates emergency rooms at its hospitals that are open to the public 24 hours a day, 7 days a week. The Health System also operates Life Flight, an air ambulance service based at the Memorial Hermann Hospital trauma center; a burn unit; a transplant center; and two Level III neonatal intensive care units that provide services to many infants whose mothers have not had access to appropriate prenatal care. Additionally, the Health System provides various community screenings for the detection of diseases and disorders, as well as a forum for various wellness activities and community health education classes.

The Health System funds various other projects as part of its ongoing community benefit plan. These projects are targeted to specific community needs and locations and are in addition to the uncompensated care the Health System provides to patients. Examples of projects funded include 5 school-based health centers serving 28 schools, a mobile dental program serving 9 schools, and providing financial support to numerous primary care clinics throughout the area that serve the community's uninsured population. Additionally, the Health System supports various local, private, and city task forces committed to addressing the issue of health access for the underserved.

As a part of its approval of the 1997 merger between Memorial Hermann Hospital System and Hermann Hospital Estate, a Harris County District Court entered an Agreed Order stipulating that the Health System will continue providing charity care and community service in the amount of 6% of net revenue or $22,500,000, whichever is greater. This amount is an additional 1% above the percentage required of all Texas nonprofit hospitals under the charity care provision of the Texas Health & Safety Code. During fiscal years 2013 and 2012, the Health System believes

3. Community Service (continued)

it has met all stipulations of the agreement. Revenues of the other Health System entities are not obligated under the agreement. Assets in a related charity endowment fund may be used to subsidize charity in excess of these amounts. The charity endowment fund is classified as an asset limited as to use in the accompanying combined balance sheets and as of June 30, 2013 and 2012, had a value of $7,504,000 and $7,293,000, respectively.

4. Cash, Cash Equivalents, Investments, and Assets Limited as to Use

Cash, Cash Equivalents, and Investments

The Health System maintains investments with various financial institutions and investment management firms, and its policy is designed to limit exposure to any one institution or investment, therefore reducing overall investment risks.

The following is a summary of unrestricted cash, cash equivalents, and investments by classification:

	June 30	
	2013	**2012**
	(In Thousands)	
Cash and cash equivalents	**$ 447,695**	$ 348,300
Fixed income	**896,143**	886,011
Equity securities	**236,457**	197,776
Alternative investments	**1,600**	–
Total cash, cash equivalents, and investments	**$ 1,581,895**	$ 1,432,087

Fixed income includes U.S. government securities, agency mortgage-backed securities, and corporate obligations in pooled funds and separate accounts. Equity securities include domestic and international equities in pooled funds and separate accounts.

4. Cash, Cash Equivalents, Investments, and Assets Limited as to Use (continued)

Assets Limited as to Use

The following table sets forth the restricted purpose of the Health System's assets limited as to use:

	June 30	
	2013	**2012**
	(In Thousands)	
Bond indenture agreements	**$ 1,364**	$ 43,982
Self-insurance programs	**67,432**	60,034
Donor restrictions	**97,736**	91,387
Resident agreements	**8,462**	9,282
Charity care and depreciation funds	**7,984**	7,772
	182,978	212,457
Less current portion required for current liabilities	**(10,704)**	(15,887)
	$ 172,274	$ 196,570

Investment Income

Investment income related to unrestricted net assets comprises the following:

	Year Ended June 30	
	2013	**2012**
	(In Thousands)	
Interest and dividend income	**$ 39,567**	$ 26,578
Realized gains, net	**4,692**	3,187
Unrealized gains, net, including equity in earnings of alternative investments	**20,404**	12,598
	$ 64,663	$ 42,363

5. Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	June 30	
	2013	**2012**
	(In Thousands)	
Buildings and improvements	**$ 2,292,104**	$ 2,264,869
Building and equipment under capital lease	**690,701**	688,079
Equipment	**1,479,251**	1,391,006
Less accumulated depreciation	**(2,444,825)**	(2,230,596)
	2,017,231	2,113,358
Land	**88,063**	88,044
Construction-in-progress	**100,113**	68,878
	$ 2,205,407	$ 2,270,280

At June 30, 2013, the Health System had remaining commitments for planned construction of approximately $45,346,000.

6. Indebtedness

The Health System's indebtedness at June 30 is as follows:

	June 30	
	2013	**2012**
	(In Thousands)	
Series 1997A serial and term bonds due each June 1 through 2024, at interest rate of 6.00%, including bond premiums, net, of $0 and $228, respectively	**$ –**	$ 10,093
Series 1998 serial and term bonds due each June 1 through 2027, at interest rate of 5.50%, including bond premiums, net, of $794 and $1,245, respectively	**20,909**	30,640
Series 2004A term bonds due each December 1 through 2024, at interest rates of 5.00% to 5.25%, including bond premiums, net, of $77 and $1,527, respectively	**9,567**	79,247
Series 2008A due each June 1, 2016 through 2027, at a variable rate	**184,800**	184,800
Series 2008B term bonds due each December 1, 2027 through 2035, at interest rates of 7.00% to 7.25%, including bond discount, net, of $0 and $742, respectively	**–**	226,258
Series 2008C due each June 1, 2014 through 2024 at a variable rate	**–**	121,400
Series 2008D due each June 1, 2025 through 2029 at a variable rate	**30,000**	133,200
Series 2010A serial and term bonds due each June 1 through 2024, at interest rates of 2.375% to 5.00%, including bond discount, net, of $144 and $138, respectively	**59,831**	64,217
Series 2010B due each June 1, 2029 through 2032, at a variable rate	**162,400**	162,400
Series 2013A term bonds due each December 1, 2015 through 2036, at interest rates of 3.00% to 5.00%, including bond premiums, net, of $23,898 and $0, respectively	**345,838**	–
Series 2013B due each June 1, 2014 through 2024, at a variable rate	**122,135**	–
Series 2013C due each June 1, 2025 through 2029, at a variable rate	**62,150**	–
Series 2013D due each June 1, 2025 through 2029, at a variable rate	**41,435**	–
Bank loan, due monthly through June 1, 2013, at a variable rate	**–**	9,167
Bank loan, due quarterly beginning October 1, 2012 through June 1, 2017, at interest rate of 2.65%	**9,588**	10,000
Capitalized lease obligations	**705,368**	702,265
Other notes	**30,714**	27,864
	1,784,735	1,761,551
Less current portion	**(143,843)**	(45,480)
	$ 1,640,892	$ 1,716,071

The interest rate on the Health System's variable rate bonds are based on various indices. The interest rates at June 30, 2013 ranged from 0.11% to 0.92%.

6. Indebtedness (continued)

Debt Obligations

The Health System has issued revenue bonds through the Harris County Health Facilities Development Corporation and the Harris County Education Facilities Finance Corporation. Payments to the bondholders are funded by the issuing affiliates under a master trust indenture with the trustees of the respective bond issues. The Health System and substantially all operating affiliates have agreed to arrangements and indentures related to the bonds to abide by guidelines regarding repayment, financial performance, organizational changes, reporting, and additional borrowing.

On January 5, 2011, the Health System issued the Series 2010B variable rate demand bonds in the amount of $162.4 million to refund the $161.6 million Series 2001B auction-rate bonds. These bonds were purchased by a bank and have no “put feature” for a term of five years.

On September 13, 2011, the Health System converted the mode on the Series 2008A bonds from variable rate demand bonds supported by a standby Bond Purchase Agreement to floating-rate notes purchased directly by two banks. These notes have no “put feature” for a term of five years.

In addition, the bank notes associated with the Series 2010B bonds and the Series 2008A bonds contain certain criteria under which the respective banks can call for the repayment of the debt in advance of the stated maturities. Management has evaluated these criteria and believes the debt is appropriately classified as long-term.

On June 26, 2012, a majority-owned partnership (Katy Rehab LLC) entered into a $10.0 million bank note representing a 5-year (15-year amortization) loan. The proceeds of the note repaid working capital loans provided to the venture by the Health System.

On July 18, 2012, the Health System entered into a syndicated revolving line of credit agreement with seven banks in the amount of $230.0 million. The purpose of this line of credit facility is to provide a source of liquidity in the case of emergency or disaster, or to provide a means of bridge-financing in advance of any permanent debt financing transaction. As of June 30, 2013, there have not been any draws under this agreement.

6. Indebtedness (continued)

On March 28, 2013, the Health System defeased a portion of the Series 2004A bonds ($63.8 million) and all of the Series 2008B bonds ($227.0 million) by issuing the Series 2013A fixed rate refunding bonds ($321.9 million). The Series 2013A bonds were sold at a net premium of $24.7 million. In connection with this transaction, debt service reserve funds of $32.0 million were released. This transaction resulted in a loss from bond financing of $81.9 million.

Also on March 28, 2013, the Health System refinanced its Series 2008C variable rate demand bonds ($121.4 million) by issuing the Series 2013B refunding bonds ($122.1 million). This transaction resulted in a loss on bond refinancing of $781,000. The Series 2013B bonds were issued as floating rate notes.

On April 10, 2013, the Health System refinanced its Series 2008D-1 and Series 2008D-2 variable rate demand bonds ($103.2 million) by issuing the Series 2013C ($62.15 million) and Series 2013D ($41.4 million) refunding bonds. The Series 2013C and 2013D bonds were issued under the Health System's self-liquidity program and therefore have been classified as current liabilities. The Health System will provide its own liquidity to purchase any tendered bonds that cannot be successfully remarketed. These transactions resulted in a loss from bond refinancing of $777,000.

Other notes consist of secured loans by financial institutions to finance the equipment purchases of the Health System's joint venture partnerships.

As of June 30, 2013, scheduled principal payments for outstanding debt (excluding capital leases) for the next five fiscal years are as follows: $133,345,000 in 2014, $30,760,000 in 2015, $34,340,000 in 2016, $35,420,000 in 2017, and $35,700,000 in 2018.

The estimated fair value of the Health System's serial and term fixed-rate bonds and notes payable at June 30, 2013 and 2012, was approximately $1,056,922,000 and $1,113,721,000, respectively. The valuation of the bonds is based on a combination of quoted market prices for identical securities when available, a Level 1 input, and quoted market prices for similarly rated healthcare revenue bond issues, a Level 2 input. The valuation of the notes was derived from net present value calculations of future payments.

6. Indebtedness (continued)

Leases

The Health System leases certain health facilities located in the Houston metropolitan area. One such leasing arrangement, which is reflected as a capital lease in the accompanying combined financial statements, consists of a 520-licensed-bed general acute care hospital and rehabilitation care facility located in west Houston. All revenues and income from the operation of the leased facilities during the lease term accrue to the Health System. The Health System is responsible under the lease for ad valorem taxes, normal maintenance, utilities, and other operating costs.

Additionally, in connection with the lease agreement discussed above, the Health System and the landlord entered into a lease agreement that became effective upon completion of construction of a new administration building and other renovations. The lease, which was effective beginning in 2012, was capitalized at its commencement date.

In June 2011, the Health System entered into 10-year lease agreements for additional floors of the Memorial City Medical Tower and for certain land, buildings, and improvements of medical offices currently existing near the Memorial City Medical Tower. These agreements are being recorded as operating leases with rental payments reflected in the accompanying combined statements of operations and changes in net assets.

The Health System leases certain other health facilities in the Houston metropolitan area consisting of a 255-licensed-bed general acute care hospital in north Houston. All revenues and income from the operation of the leased facilities during the lease term accrue to the Health System. The Health System is responsible under the lease for ad valorem taxes, normal maintenance, utilities, and other operating costs. The lease is to expire on June 7, 2022, with a provision for two renewal term extensions of 10 years each. This agreement is being recorded as an operating lease with rental payments reflected in the accompanying combined statements of operations and changes in net assets.

The Health System also leases office space and equipment under noncancelable leases. Rental expense under noncancelable leases, including the operating leases discussed above, aggregated $78,091,000 and $77,070,000 in 2013 and 2012, respectively.

6. Indebtedness (continued)

Leases

As of June 30, 2013, minimum future rentals under noncancelable leases, for the next five fiscal years and in aggregate, are as follows:

	Capital Leases	Operating Leases
2014	$ 42,990,010	$ 75,839,076
2015	44,556,516	69,523,253
2016	46,911,248	62,599,375
2017	46,647,883	45,758,125
2018–2046	1,650,148,496	180,538,375
Total minimum lease payments	1,831,254,153	$ 434,258,204
Less portion representing interest	(1,125,886,297)	
Capital lease obligations	$ 705,367,856	

7. Interest Rate Swap Agreements

The Health System periodically utilizes interest rate swap agreements to manage its interest rate exposure. The following table summarizes the Health System's swap portfolio, the fair values at June 30, 2013 and 2012, the change in value, and the net amounts paid and received for the years ended June 30, 2013 and 2012, in thousands:

Swap Description	Term Date	Interest Rate Agreements	Aggregate Notional Amount	Fair Value Liability June 30 2013	Fair Value Liability June 30 2012	Change in Fair Value June 30 2013	Change in Fair Value June 30 2012	Settlement Activity Paid June 30 2013	Settlement Activity Paid June 30 2012
LIBOR-based to Fixed (5.3425%)	2032	1	$ 113,120	**$ (32,323)**	$ (46,700)	**$ 14,377**	$ (24,801)	**$ 5,554**	$ 6,075
LIBOR-based to Fixed (3.629%)	2029	3	131,700	**(23,463)**	(33,690)	**10,277**	(17,155)	**4,745**	6,581
LIBOR-based to Fixed (3.635%)	2024	2	120,000	**(14,837)**	(20,025)	**5,188**	(6,316)	**4,164**	4,046
LIBOR-based to Fixed (3.685%)	2027	3	184,800	**(28,788)**	(39,003)	**10,215**	(15,765)	**6,806**	4,438
		9	$ 549,620	**$ (99,411)**	$ (139,418)	**$ 40,057**	$ (64,037)	**$ 21,269**	$ 21,140

7. Interest Rate Swap Agreements (continued)

The notional amounts under each of the interest rate swap agreements are reduced in conjunction with the Health System's principal payments on the associated bonds. At June 30, 2013 and 2012, the fair value of swap agreements was a liability of $99,411,000 and $139,418,000, respectively, and has been included in other long-term liabilities. As of June 30, 2013, none of the Health System's swap agreements include provisions that would require posting of collateral.

The Health System reclassified the net interest cost on its interest rate swaps for the years ended June 30, 2013 and 2012, of $21,269,000 and $21,140,000, respectively, from services and other expenses to non-operating expenses in the combined statements of operations and changes in net assets.

8. Fair Value Measurement

The Health System categorizes, for disclosure purposes, assets and liabilities measured at fair value in the financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs that are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability, based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. The Health System's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The Health System follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date.

Level 2 – Inputs to the valuation methodology other than quoted market prices included in Level 1 that are observable for the asset or liability. Level 2 pricing inputs include quoted

8. Fair Value Measurement (continued)

prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs that are unobservable for the asset or liability.

Financial assets and liabilities measured at fair value on a recurring basis were determined using the following inputs at June 30, 2013. The following table presents financial instruments carried at fair value as of June 30, 2013. The table does not include cash and cash equivalents of $30,446,000, contributions receivable of $22,601,000, and real estate and other investments of $6,933,000, which are not carried at fair value and are included in assets limited as to use.

	June 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Assets				
Investments:				
U.S. government securities	$ 127,123	$ 20,255	$ –	$ 147,378
Pooled funds:				
Domestic equities	154,798	–	–	154,798
Global equities	34,438	–	–	34,438
Fixed income	452,895	–	–	452,895
Agency mortgage-backed securities	72,584	18,735	–	91,319
Corporate obligations	54,755	149,796	–	204,551
Corporate equities	29,825	–	–	29,825
Global equities	17,396	–	–	17,396
Assets limited as to use:				
Pooled funds:				
Domestic equities	18,729	–	–	18,729
Global equities	14,508	–	–	14,508
Fixed income	72,777	–	–	72,777
Hedge fund	–	–	7,419	7,419
Fixed maturity securities	222	–	–	222
Corporate obligations	71	–	–	71
Corporate equities	168	–	–	168
Total assets	$ 1,050,289	$ 188,786	$ 7,419	$ 1,246,494
Liabilities				
Interest rate swap agreements	$ –	$ 99,411	$ –	$ 99,411
Total liabilities	$ –	$ 99,411	$ –	$ 99,411

8. Fair Value Measurement (continued)

Financial assets and liabilities measured at fair value on a recurring basis were determined using the following inputs at June 30, 2012. The following table presents financial instruments carried at fair value as of June 30, 2012. The table does not include cash and cash equivalents of $38,123,000, contributions receivable of $20,432,000, and real estate and other investments of $5,832,000, which are not carried at fair value and are included in assets limited as to use.

	June 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Assets				
Investments:				
U.S. government securities	$ 130,279	$ –	$ –	$ 130,279
Pooled funds:				
Domestic equities	134,379	–	–	134,379
Global equities	39,392	–	–	39,392
Fixed income	442,940	–	–	442,940
Agency mortgage-backed securities	1,153	–	–	1,153
Corporate obligations	229,135	82,504	–	311,639
Corporate equities	24,005	–	–	24,005
Assets limited as to use:				
U.S. government securities	26,382	–	–	26,382
Pooled funds:				
Domestic equities	16,025	–	–	16,025
Global equities	12,266	–	–	12,266
Fixed income	68,566	–	–	68,566
Hedge fund	–	–	6,701	6,701
Fixed maturity securities	219	–	–	219
Other	100	–	–	100
Corporate obligations	1,750	–	–	1,750
Corporate equities	174	–	–	174
Total assets	$ 1,126,765	$ 82,504	$ 6,701	$ 1,215,970
Liabilities				
Interest rate swap agreements	$ –	$ 139,418	$ –	$ 139,418
Total liabilities	$ –	$ 139,418	$ –	$ 139,418

8. Fair Value Measurement (continued)

The fair values of the securities included in Level 1 were determined through quoted market prices and include money market funds, mutual funds, and marketable debt and equity securities. The fair values of Level 2 securities were determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads, and estimated prepayment rates, where applicable, are used for valuation purposes and are provided by third-party services where quoted market values are not available. The fair values of Level 3 securities are determined primarily through information obtained from the relevant counterparties for such investments. Information on which these securities' fair values are based is generally not readily available in the market.

9. Pension Plans

The Health System sponsors a cash balance defined benefit pension plan covering all eligible employees. The Health System's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Health System may determine to be appropriate from time to time. Funding requirements are determined through consultation with an independent actuary. Effective July 1, 2011, the Health System closed the plan to new participants. Participants as of June 30, 2011, will continue to accrue benefits.

The Health System recognizes the funded status (that is, the difference between the fair value of plan assets and the projected benefit obligations) of its plan in the combined balance sheet, with a corresponding adjustment to net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension cost in the same periods are recognized as a component of net assets.

The assumptions used in calculating the pension amounts recognized in the Health System's combined financial statements include discount rates, interest costs, expected return on plan assets, retirement and mortality rates, inflation rates, salary growth, and other factors. While the Health System believes the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect future pension obligations and expense.

9. Pension Plans (continued)

The following tables set forth the plan's funding status as of the measurement dates, amounts recognized in the combined financial statements, and assumptions used. For 2013 and 2012, the plan's measurement date was June 30, 2013 and 2012, with a participant census date of July 1, 2012 and 2011, respectively.

	Year Ended June 30	
	2013	**2012**
	(In Thousands)	
Change in projected benefit obligation:		
Benefit obligation, beginning	**$ 509,869**	$ 462,412
Service cost	**36,020**	33,207
Interest cost	**20,847**	22,995
Actuarial (gain) loss, net	**(20,836)**	35,718
Benefits paid	**(35,096)**	(40,874)
Administrative expenses paid	**(2,704)**	(3,589)
Projected benefit obligation (including $478,798 and $476,109, respectively, in accumulated benefit obligation), at end of year	**$ 508,100**	$ 509,869
Change in plan assets:		
Fair value of assets, beginning	**$ 512,122**	$ 474,111
Employer contributions	**30,000**	70,000
Return on plan assets	**56,483**	12,474
Benefits paid	**(35,096)**	(40,874)
Administrative expenses paid	**(2,704)**	(3,589)
Fair value of assets, at end of year	**$ 560,805**	$ 512,122
Funded status:		
Prepaid pension cost recorded in other assets in the combined balance sheets	**$ 52,705**	$ 2,253

9. Pension Plans (continued)

At June 30, 2013, unrestricted net assets include $115,056,000 of primarily unrecognized actuarial losses of the Health System's defined benefit plan that have not yet been recognized in net periodic benefit cost. Amounts recognized in unrestricted net assets expected to be recognized in net periodic benefit cost during fiscal 2014 are $8,658,000.

	Year Ended June 30	
	2013	**2012**
	(In Thousands)	
Components of net periodic cost:		
Service cost	**$ 36,020**	$ 33,208
Interest cost	**20,847**	22,995
Expected return on plan assets	**(35,076)**	(33,574)
Amortization of prior service cost	**314**	389
Amortization of losses and other, net	**13,989**	9,533
Net periodic cost included in salaries, benefits, and related personnel costs in the combined financial statements	**$ 36,094**	$ 32,551
Weighted-average assumptions for determining benefit obligations at end of year and net periodic costs for the year:		
Discount rates – benefit obligations	**4.93%**	4.29%
Discount rates – net periodic costs	**4.29**	5.41
Rates of increase in future compensation levels	**4.00**	4.00
Expected long-term rate of return on plan assets	**6.75**	7.25

The assumption for the expected return on assets is derived from a study conducted by the Health System's actuaries and financial management. The study includes a review of the plan's asset allocation strategy, anticipated long-term performance of individual asset classes, risks and correlations of asset classes, and general economic conditions of the investment marketplace. Because of revisions to the plan's investment policy, asset allocation strategy, and changes in professional managers utilized, historical returns performance of the plan was not a significant factor in the analysis.

9. Pension Plans (continued)

The assets of the pension plan by weighted-average asset allocation categories are set forth in the following table:

	2013	2012
Asset category:		
Short term investments	**4%**	8%
Fixed income	**37**	39
Domestic equity	**39**	35
International equity	**10**	8
Alternative investments and other	**10**	10
Total	**100%**	100%

The plan's general investment objective is to seek to achieve attractive long-term total return from income and growth of capital over a full market cycle with a low-to-moderate level of risk, emphasizing, primarily, the preservation of principal and, secondarily, the real purchasing power of assets over the long term while maintaining adequate liquidity to meet benefits and expense cash flow requirements when due through the utilization of investments in a balanced and diversified portfolio of equity, fixed income, short-term liquid securities, and alternative investments. Investments will be well-diversified across individual issuers, economic sectors, and asset classes to ensure a level of risk that is comparable to the general investment markets.

The Plan's assets measured at fair value on a recurring basis were determined using the following inputs at June 30, 2013 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 23,236	$ –	$ –	$ 23,236
Pooled funds:				
Domestic equities	173,222	–	–	173,222
Global equities	36,406	–	–	36,406
Fixed income	208,193	–	–	208,193
Hedge fund	–	–	57,072	57,072
Corporate equities	44,268	–	–	44,268
Global equities	18,408	–	–	18,408
Total	$ 503,733	$ –	$ 57,072	$ 560,805

9. Pension Plans (continued)

For the year ended June 30, 2013, the changes in the fair value of the Plan's investments, for which Level 3 inputs were used, are as follows (in thousands):

Balance at July 1, 2012	$ 51,873
Purchases of investments	–
Sales of investments	–
Net change in unrealized appreciation on investments	5,199
Net realized investment income	–
Ending investments at fair value	$ 57,072

The Plan's assets measured at fair value on a recurring basis were determined using the following inputs at June 30, 2012 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 41,229	$ –	$ –	$ 41,229
Pooled funds:				
Domestic equities	143,640	–	–	143,640
Global equities	39,119	–	–	39,119
Fixed income	202,747	–	–	202,747
Hedge funds	–	–	51,873	51,873
Corporate equities	33,514	–	–	33,514
Total	$ 460,249	$ –	$ 51,873	$ 512,122

For the year ended June 30, 2012, the changes in the fair value of the Plan's investments, for which Level 3 inputs were used, are as follows (in thousands):

Balance at July 1, 2011	$ 52,499
Purchases of investments	–
Sales of investments	–
Net change in unrealized appreciation on investments	(634)
Net realized investment income	8
Ending investments at fair value	$ 51,873

9. Pension Plans (continued)

At June 30, 2013 and 2012, the Plan's investment in alternative investments of $57,072,000 and $51,873,000, respectively, is included in hedge funds. Alternative investments include ownership interests in limited liability corporations and limited partnerships that may employ various investment strategies through the use of publicly traded securities, market neutral arbitrage, floating-rate loans and debt securities, and fixed-income swaps. ASU 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, allows for the use of a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value.

Management opted to use the net asset value per share, or its equivalent, as a practical expedient for fair value of the plan's interest in alternative investments. Valuations provided by the respective investment's management consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information. In addition, actual market exchanges at period-end provide additional observable market inputs of the exit price. The majority of these funds have restrictions on the timing of withdrawals, which may reduce liquidity, in some cases for up to 12 months.

All of the assets are managed by external investment managers and are maintained in actively managed security portfolios. Derivative investments are not allowed except by fund managers who employ such techniques to offset or reduce the risk associated with an existing group of investments. Based on funded status, management does not expect to make any contributions for fiscal year 2014.

	Estimated *(In Thousands)*
Expected benefit payments estimated for fiscal years:	
2014	$ 37,443
2015	38,529
2016	40,770
2017	41,615
2018	43,837
Subsequent five years combined	223,765

9. Pension Plans (continued)

In addition to the defined benefit plan discussed above, eligible employees participate in certain other retirement plans, including a defined contribution plan that resulted in additional employer matches of $22,269,000 and $20,654,000 for 2013 and 2012, respectively.

10. Self-Funded Liabilities

The Health System is self-insured for general and professional liability, errors and omissions, and workers' compensation claims, and maintains excess insurance coverage at varying levels. A provision is made for estimated losses and related expenses on risks not covered by insurance. The provision includes estimated amounts for asserted claims, reported incidents for which a claim has not been asserted, and claims incurred but not reported. The provision is based on specific claim loss estimates by the Health System's management and on estimates of total annual losses by an independent consulting actuary using the Health System and similar facility experience.

The Health Professionals Insurance Company, Ltd. (HePIC), a wholly owned subsidiary, is a captive insurance company that provides professional liability, general liability, and other insurance coverage for the Health System affiliates. The Health System funds HePIC's required insurance reserves. Funding amounts are based on actuarial recommendations. The assets of HePIC and the established liability for self-funded losses are reported in the combined balance sheets. Investment income from the assets and the provision for estimated self-funded losses and administrative costs are reported in the combined statements of operations and changes in net assets. The Health System's established liability for self-funded losses was $55,752,000 and $78,109,000 as of June 30, 2013 and 2012, respectively, and is recorded in other long-term obligations in the accompanying combined balance sheets.

11. Commitments and Contingencies

Litigation

From time to time, the Health System is subject to litigation in the ordinary course of its operations. In management's opinion, any future settlements or judgments on asserted or unasserted claims will not have a material effect on the Health System's combined financial position.

11. Commitments and Contingencies (continued)

Various federal and state agencies have initiated investigations regarding reimbursement claimed by the Health System and other matters. The investigations are in various stages of discovery, and the ultimate resolution of these matters, including the liabilities, if any, cannot be readily determined; however, in the opinion of management, the results of these investigations will not have a material adverse impact on the combined financial statements of the Health System.

Other

The Health System has entered into prime vendor contracts with certain of its suppliers to provide medical, surgical, and pharmaceutical supplies, as well as medical and other equipment, at favorable prices over specific periods of time. These contracts may include some special terms such as minimum purchase amounts, defined time periods, favorable pricing terms, or service fees. The purposes of these arrangements are to maintain an orderly procurement process and to obtain favorable prices for the provision of the supplies and equipment that the Health System utilizes during the normal course of conducting business.

Under terms of an agreement, as amended, dated January 1, 1968, the Health System and the University of Texas Health Science Center at Houston (the University) affiliated to operate and maintain a patient care, medical teaching, research, and community service facility. The agreement specifies that Memorial Hermann Hospital will serve as the primary private hospital teaching site for the University and operate and maintain a fully accredited hospital while maintaining final authority over operational policy. The University agrees to offer the hospital the opportunity to accommodate all teaching programs and clinical programs, maintain fully accredited educational programs, and conduct research activities while utilizing Memorial Hermann Hospital. Mutual commitments include administrative appointments and sharing of certain operational and research costs. Expenses for obligations to the University for the years ended June 30, 2013 and 2012, totaled $139,609,000 and $121,959,000, respectively. This agreement expires on September 1, 2019, with automatic renewals for 10 consecutive one-year terms unless otherwise terminated by Memorial Hermann Hospital or the University.

Letters of credit in the amount of $12,767,000 have been issued by the Health System for June 30, 2013 and 2012, in favor of certain insurance contracts to secure the Health System’s liabilities under the reinsurance agreements. The letter of credit at June 30, 2012 was supported to the extent needed by the pledging of certain fixed-maturity securities as collateral. This letter of credit was renewed on July 6, 2012, and in the process of renewal the investments were

11. Commitments and Contingencies (continued)

released from collateralization in return for a guarantee by the Health System. In addition, the Health System has a letter of credit of $6,505,000 at June 30, 2013 and 2012, associated with its obligations in connection with its participation in the UC program.

In March 2010, the Patient Protection and Affordability Care Act (the Act), a comprehensive health reform bill, was signed into law. The legislation is complex and will be phased in over several years, with the most significant parts beginning to take effect in 2014. The Health System is in the process of assessing the potential impact of this reform on its operations but does not have enough information or data to predict the effects with certainty.

Supplementary Information

Memorial Hermann Health System

Combined Balance Sheet

June 30, 2013

	Healthcare Operations	University Place	Health Plan	The Health Professionals Insurance Company	Memorial Hermann Foundation	Other Supporting Operations	Reclasses and Eliminations	Memorial Hermann Health System
Assets								
Current assets:								
Cash and cash equivalents	$ 442,747	$ 422	$ 2,818	$ 6,457	$ 65,233	$ 1,708	$ (71,690)	$ 447,695
Investments	1,134,200	–	–	52,593	–	–	(52,593)	1,134,200
Patient account receivable, net	485,000	–	–	–	–	(150)	–	484,850
Other current assets	163,520	28	2,928	3,017	22,601	1,332	(24,560)	168,866
Total current assets	2,225,467	450	5,746	62,067	87,834	2,890	(148,843)	2,235,611
Property, plant, and equipment, net	2,201,811	1,859	1,323	–	–	414	–	2,205,407
Assets limited as to use, less current portion	64,633	8,462	9,009	–	1,254	–	88,916	172,274
Other assets	71,146	64	5,551	–	–	295	–	77,056
Intercompany receivables	59,857	–	–	–	1,081	204,443	(265,381)	–
Total assets	$ 4,622,914	$ 10,835	$ 21,629	$ 62,067	$ 90,169	$ 208,042	$ (325,308)	$ 4,690,348
Liabilities and net assets								
Current liabilities:								
Accounts payable	$ 154,950	$ 410	$ 580	$ 210	$ 116	$ 3,202	$ (325)	$ 159,143
Accrued payroll and related expenses	186,920	44	780	–	73	3,071	(73)	190,815
Other accrued expenses	89,238	760	4,692	–	–	8,160	(2,493)	100,357
Current portion of long term debt, including capital lease obligations	40,258	–	–	–	–	–	–	40,258
Long term debt subject to liquidity	103,585	–	–	–	–	–	–	103,585
Total current liabilities	574,951	1,214	6,052	210	189	14,433	(2,891)	594,158
Long term debt, including capital lease obligations	1,640,466	–	–	–	–	–	426	1,640,892
Other long term obligations	211,901	7,534	–	49,096	595	–	(49,691)	219,435
Intercompany payables	12,107	10,261	14,520	12,641	–	198,756	(248,285)	–
Total liabilities	2,439,425	19,009	20,572	61,947	784	213,189	(300,441)	2,454,485
Net assets, including noncontrolling interests	2,183,489	(8,174)	1,057	120	89,385	(5,147)	(24,867)	2,235,863
Total liabilities and net assets	$ 4,622,914	$ 10,835	$ 21,629	$ 62,067	$ 90,169	$ 208,042	$ (325,308)	$ 4,690,348

Memorial Hermann Health System

Combined Statement of Operations and Changes in Net Assets

Year Ended June 30, 2013

	Healthcare Operations	University Place	Health Plan	The Health Professionals Insurance Company	Memorial Hermann Foundation	Other Supporting Operations	Reclasses and Eliminations	Memorial Hermann Health System
Revenues, gains and other support:								
Net patient service revenue before bad debt	$ 4,047,849	$ –	$ –	$ –	$ –	$ 5	$ (24,849)	$ 4,023,005
Provision for bad debts	(633,975)	–	–	–	–	(197)	–	(634,172)
Net patient service revenue	3,413,874	–	–	–	–	(192)	(24,849)	3,388,833
Other revenue	160,553	6,020	26,276	7,009	4,104	13,349	(27,654)	189,657
Total revenues, gains, and other support	3,574,427	6,020	26,276	7,009	4,104	13,157	(52,503)	3,578,490
Expenses:								
Salaries, benefits, and related personnel costs	1,560,474	1,481	11,939	–	2,203	10,708	(25,073)	1,561,732
Services and other	948,632	3,124	20,552	10,593	1,499	17,592	(29,379)	972,613
Supplies and medicines	578,985	741	992	–	401	529	(8)	581,640
Depreciation and amortization	218,260	183	229	–	–	2,194	–	220,866
Interest	75,828	–	–	–	–	–	(41)	75,787
Total expenses	3,382,179	5,529	33,712	10,593	4,103	31,023	(54,501)	3,412,638
Operating income	192,248	491	(7,436)	(3,584)	1	(17,866)	1,998	165,852
Nonoperating activities:								
Investment income, including interest rate swaps	83,159	275	8	3,584	–	–	(3,624)	83,402
Loss on bond refunding	(83,481)	–	–	–	–	–	–	(83,481)
Revenues attributable to noncontrolling interest	(27,186)	–	–	–	–	–	–	(27,186)
Other income, net	3,137	–	865	–	–	–	46	4,048
Revenues in excess of (less than) expenses	167,877	766	(6,563)	–	1	(17,866)	(1,580)	142,635
Other changes in net assets:								
Change in unfunded pension obligation	55,162	–	–	–	–	–	–	55,162
Change in noncontrolling interests	1,553	–	–	–	–	–	–	1,553
Contributions and grants received and other changes in net assets	12,879	–	5,331	–	6,293	1	(2,404)	22,100
Change in net assets	237,471	766	(1,232)	–	6,294	(17,865)	(3,984)	221,450
Net assets at beginning of year	1,946,018	(8,940)	2,289	120	83,091	12,718	(20,883)	2,014,413
Net assets at end of year	$ 2,183,489	$ (8,174)	$ 1,057	$ 120	$ 89,385	$ (5,147)	$ (24,867)	$ 2,235,863

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