METHODIST HEALTH SYSTEM FOUNDATION, INC. AND SUBSIDIARIES

Audits of Consolidated Financial Statements

June 30, 2012 and 2011

LAPORTE
CPAs & BUSINESS ADVISORS

Contents

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Independent Auditor's Report

To the Board of Directors of
Methodist Health System Foundation, Inc. and Subsidiaries

We have audited the accompanying consolidated statements of financial position of Methodist Health System Foundation, Inc. (the Foundation) and its subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation and its subsidiaries at June 30, 2012 and 2011, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

LaPorte

A Professional Accounting Corporation

September 28, 2012

METHODIST HEALTH SYSTEM FOUNDATION, INC.
AND SUBSIDIARIES
Consolidated Statements of Financial Position
June 30, 2012 and 2011

	2012	2011
Assets		
Cash and Cash Equivalents	$ 509,976	$ 509,033
Receivables	9,393	28,281
Prepaid Expenses	97,144	61,135
Investment Securities - at Fair Value	67,139,379	75,166,654
Investments in and Advances to Affiliated Entities	395,381	395,381
Property and Equipment, Net	4,893,645	4,992,728
Cash Surrender Value of Life Insurance Policies	674,203	619,332
Other Assets	3,660	3,660
Total Assets	$ 73,722,781	$ 81,776,204
Liabilities and Net Assets		
Liabilities		
Accounts Payable and Other Accrued Liabilities	$ 82,311	$ 128,654
Grants Payable	706,791	681,851
Accrued Payroll and Related Liabilities	489,628	457,075
Settlement Liability, Net of Discount	-	509,505
Mortgage Loan Payable	698,710	1,020,108
Total Liabilities	1,977,440	2,797,193
Net Assets		
Unrestricted	71,633,641	78,855,659
Temporarily Restricted	111,700	123,352
Total Net Assets	71,745,341	78,979,011
Total Liabilities and Net Assets	$ 73,722,781	$ 81,776,204

The accompanying notes are an integral part of these consolidated financial statements.

METHODIST HEALTH SYSTEM FOUNDATION, INC.
AND SUBSIDIARIES
Consolidated Statements of Activities
For the Years Ended June 30, 2012 and 2011

	2012	2011
Unrestricted Revenues, Gains and (Losses)		
Rental Income	$ 2,000	$ 2,000
School-Based Health Clinic and Other Healthcare Initiatives	264,188	277,777
Management Services Organization	203,515	337,107
Hypnotherapy	20,630	19,125
Contributions	1,126	1,115,000
Change in Value of Life Insurance Policies	105,160	26,294
Investment Income, Net - Excluding Unrealized Gains	1,825,674	4,235,644
Other Income	48,379	42,431
Net Assets Released from Restrictions	11,930	-
Total Unrestricted Revenues, Gains and (Losses)	2,482,602	6,055,378
Expenses		
Program		
Operating Expenses of Medical Office Buildings	6,691	-
School-Based Health Clinic	538,543	565,166
Management Services Organization	334,352	399,852
Hypnotherapy	49,042	52,174
External Affairs	94,587	125,695
Grants and Donations	1,507,335	1,043,723
Supporting		
General and Administrative	2,323,635	2,318,610
Interest Expense	50,154	86,367
Total Expenses	4,904,339	4,591,587
Change in Unrestricted Net Assets Before Unrealized (Losses) Gains from Investment Securities	(2,421,737)	1,463,791
Unrealized (Losses) Gains from Investment Securities	(4,800,281)	8,991,983
Change in Unrestricted Net Assets	(7,222,018)	10,455,774
Changes in Temporarily Restricted Net Assets		
Contributions	278	76
Net Assets Released from Restrictions	(11,930)	-
Change in Temporarily Restricted Net Assets	(11,652)	76
Change in Net Assets	(7,233,670)	10,455,850
Net Assets, Beginning of Year	78,979,011	68,523,161
Net Assets, End of Year	$ 71,745,341	$ 78,979,011

The accompanying notes are an integral part of these consolidated financial statements.

METHODIST HEALTH SYSTEM FOUNDATION, INC.
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

		2012		2011
Cash Flows from Operating Activities				
Change in Net Assets	$	**(7,233,670)**	$	10,455,850
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities				
Depreciation		**122,964**		129,782
Net Realized and Unrealized Gain on Investment Securities		**4,647,353**		(11,382,865)
Donation of Land		**-**		(1,115,000)
(Increase) Decrease in:				
Receivables		**18,888**		10,783
Prepaid Expenses		**(36,009)**		(5,487)
Cash Surrender Value of Life Insurance Policies		**(54,871)**		(26,294)
Increase (Decrease) in:				
Accounts Payable and Other Accrued Liabilities		**(46,343)**		7,971
Grants Payable		**24,940**		260,421
Accrued Payroll and Related Liabilities		**32,553**		25,119
Settlement Liability		**(509,505)**		(2,023,957)
Net Cash Used in Operating Activities		**(3,033,700)**		(3,663,677)
Cash Flows from Investing Activities				
Proceeds from Sale of Investment Securities		**31,847,759**		48,717,209
Purchases of Investment Securities		**(28,467,835)**		(44,710,190)
Purchases of Property and Equipment		**(23,883)**		(48,319)
Net Cash Provided by Investing Activities		**3,356,041**		3,958,700
Cash Flows from Financing Activities				
Payments on Mortgage Loan Payable		**(321,398)**		(304,280)
Net Cash Used in Financing Activities		**(321,398)**		(304,280)
Net Increase (Decrease) in Cash		**943**		(9,257)
Cash, Beginning of Year		**509,033**		518,290
Cash, End of Year	$	**509,976**	$	509,033
Supplemental Disclosure of Cash Flow Information				
Cash Paid for Interest	$	**48,475**	$	65,592

The accompanying notes are an integral part of these consolidated financial statements.

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Methodist Health System Foundation, Inc. (the Foundation or MHSF) is a non-stock, non-profit corporation established to focus support, development, and management of health-related programs and services for the benefit of the citizens of East New Orleans and the surrounding region. The Foundation's programs expressly target health status improvement of the referenced population by addressing the key determinants of health, including lifestyles, access to health care services, and social and environmental factors. Such initiatives are accomplished through operational management, program start-up, and grant-making while balancing community needs and fiduciary responsibility. All corporate powers are vested in a Board of Directors whose appointment is ratified by the Louisiana Annual Conference of the Methodist Church.

The consolidated financial statements of the Foundation include the accounts of its wholly owned subsidiary, Health System Network, Inc. (HSN), which, in turn, includes the accounts of its wholly owned subsidiary, Behavioral Services, Inc. (BSI). All significant intercompany transactions and balances have been eliminated in consolidation. HSN is a proprietary corporation whose principal activity is its investment in BSI. BSI owned a 10% interest in Pendleton Methodist Hospital, LLC (PMH, LLC) but sold this interest in December 2006 (see Note 8). In 2007 and in previous years, BSI accounted for its investment in PMH, LLC under the cost method of accounting.

BSI is a proprietary corporation whose principal activity is managing its investment in a general partnership, Methodist Behavioral Resources Partnership (MBRP), which owned and operated an inpatient and outpatient psychiatric/behavioral modification facility until 2002 and now manages the building that previously housed the facility (see Note 8). BSI's investment interest in MBRP was written down to zero in 2002.

The Foundation owned two medical office buildings, the Medical Center of East New Orleans (MCENO) and Physicians Medical Plaza, which were operated by an independent third party lessee (lessee) under property operating agreements. During the year ended June 30, 2009, a settlement was reached with the lessee which resulted in the buildings being effectively sold to the lessee (see Note 11).

The Foundation also operates a management services organization (MSO) to provide healthcare billing and collection services for private physicians.

Basis of Accounting and Reporting

The Foundation prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Financial statement presentation is in accordance with the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Accordingly, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no permanently restricted net assets as of June 30, 2012 and 2011.

Use of Estimates

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 that affect the reported amounts of assets and liabilities and disclosure 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.

Cash Equivalents

Cash equivalents included in the amounts reported as cash in the accompanying financial statements include investments in highly liquid debt instruments with an original maturity of three months or less when purchased, excluding amounts held by investment managers pending investment (See Note 2).

Property and Equipment

Property and equipment consists primarily of the Foundation's office building, furniture, fixtures, and equipment, which are recorded at cost, if purchased or constructed, or if received by gift, at fair market value at the date of donation. Management's threshold for capitalization is $500. The Foundation provides for depreciation on the straight-line method based on estimated useful lives ranging from 3 to 40 years.

Investment Securities

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. Investments also include investments in hedge funds structured as limited liability corporations or partnerships. These investments are accounted for under the equity method, which approximates fair value. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the change in unrestricted net assets. Unrealized gains and losses on investments are treated as unrestricted non-operating income or loss in the consolidated statement of activities.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use is limited by donors to a specific time period or purpose. Temporarily restricted net assets are released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by donors.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Foundation are reported at fair value at the date the promise is received. The gifts are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation's subsidiaries are subject to federal and state income taxes. BSI joins HSN in filing a consolidated federal income tax return. Income taxes due for the fiscal years ended June 30, 2012 and 2011, were immaterial due to net operating loss carry-forwards from prior years. HSN has a net operating loss carryforward of approximately $2.5 million at June 30, 2012, expiring from 2019 to 2032.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

Note 2. Investment Securities

In accordance with the *Not-for-Profit Entities* Topic of the FASB ASC, the Foundation reports certain equity and all debt securities at fair value.

The composition of investment securities at June 30, 2012 and 2011 is as follows:

	2012	2011
Mutual Funds	**$ 18,387,750**	$ 20,197,895
Hedge Funds	**14,035,072**	15,371,908
International Marketable Equity Securities	**12,723,638**	16,728,793
Marketable Equity Securities	**11,141,559**	13,391,944
Fixed Income	**4,608,587**	4,007,698
Cash and Cash Equivalents - Held for Investment	**3,107,161**	2,179,504
Real Estate Investment Trusts	**3,099,824**	3,265,963
Accrued Interest Receivable	**35,788**	22,949
Total	**$ 67,139,379**	$ 75,166,654

Note 2. Investment Securities (Continued)

A summary of the investment income (loss) for the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Interest and Dividend Income	$ 1,999,794	$ 2,164,280
Realized Gains (Losses), Net	152,928	2,390,882
Expenses	(327,048)	(319,518)
Total Investment Income, Excluding Unrealized Gains from Investment Securities	1,825,674	4,235,644
Unrealized (Losses) Gains from Investment	(4,800,281)	8,991,983
Total	$ (2,974,607)	$ 13,227,627

Investments are managed by several money managers, each focusing on different investment strategies to provide diversity to the investment portfolio. Hedge funds include limited partnerships and offshore investment funds. These funds invest in certain types of financial instruments, including futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of off-balance-sheet risk, may result in loss due to changes in the market.

Note 3. Fair Values of Financial Instruments

The Foundation has adopted the provisions of the *Fair Value Measurements and Disclosures* Topic of the FASB Accounting Standards Codification. Accordingly, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The *Fair Value Measurements and Disclosures* Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Note 3. Fair Values of Financial Instruments (Continued)

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, as of the reporting date.

Level 3 - Valuations based on inputs that are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The Foundation's measurements of fair value are made on a recurring basis, and their valuation techniques for assets and liabilities recorded at fair value are as follows:

Investments - The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the investment.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2012 and 2011:

	Level 1	Level 2	Level 3	Total
June 30, 2012				
Cash	**$ 3,142,949**	**$ -**	**$ -**	**$ 3,142,949**
International Marketable Equity Securities	**11,141,559**	**-**	**-**	**11,141,559**
Marketable Equity Securities	**12,723,638**	**-**	**-**	**12,723,638**
Mutual Funds	**18,387,750**	**-**	**-**	**18,387,750**
Real Estate Investment Trusts	**3,099,824**	**-**	**-**	**3,099,824**
Fixed Income Securities	**-**	**4,608,587**	**-**	**4,608,587**
Alternative Investments	**-**	**-**	**14,035,072**	**14,035,072**
Total	**$ 48,495,720**	**$ 4,608,587**	**$ 14,035,072**	**$ 67,139,379**
June 30, 2011				
Cash	$ 2,202,453	$ -	$ -	$ 2,202,453
International Marketable Equity Securities	13,391,944	-	-	13,391,944
Marketable Equity Securities	16,728,793	-	-	16,728,793
Mutual Funds	20,197,895	-	-	20,197,895
Real Estate Investment Trusts	3,265,963	-	-	3,265,963
Fixed Income Securities	-	4,007,698	-	4,007,698
Alternative Investments	-	-	15,371,908	15,371,908
Total	$ 55,787,048	$ 4,007,698	$ 15,371,908	$ 75,166,654

Note 3. Fair Values of Financial Instruments (Continued)

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30, 2012 and 2011:

	Level 3 Assets
July 1, 2010 Balance	$ 17,433,596
Total Gains (Losses), Realized and Unrealized, Included in Changes in Net Assets	2,821,948
Sales	(4,544,326)
Settlements	(339,310)
June 30, 2011 Balance	15,371,908
Total Gains (Losses), Realized and Unrealized, Included in Changes in Net Assets	(780,336)
Settlements	(556,500)
June 30, 2012 Balance	$ 14,035,072

Note 4. Property and Equipment

The major components of property and equipment as of June 30, 2012 and 2011 are as follows:

	2012	2011
Land	**$ 2,743,691**	$ 2,743,691
Office Building	**2,232,528**	2,230,731
Furniture, Fixtures and Equipment	**388,321**	427,407
Vehicles	**120,451**	120,451
	5,484,991	5,522,280
Less: Accumulated Depreciation	**(591,346)**	(529,552)
Total	**$ 4,893,645**	$ 4,992,728

Depreciation expense totaled $122,964 and $129,782, in 2012 and 2011, respectively.

Note 5. Line of Credit

The Foundation has in place a $1 million line of credit with a commercial bank. The original expiration date has been extended through October 2012. The variable interest rate is LIBOR, plus 2.00%, per annum of the unpaid principal balance and the borrowings are unsecured. At June 30, 2012 and 2011, there was no balance outstanding under the line of credit.

Note 6. Mortgage Loan Payable

The Foundation financed the construction of its new office building through a construction line of credit with a commercial bank.

The construction line of credit was converted to a mortgage loan which totaled $1,885,737. The loan has an interest rate of 5.45% and monthly payments of $30,823. The loan matures June 30, 2014, and is secured by the office building. The balance as of June 30, 2012 and 2011, was $698,710 and $1,020,108, respectively.

Following are maturities of long-term debt for each of the remaining years:

2013	$ 339,740
2014	358,970
Total	$ 698,710

Note 7. Related Party Transactions

Prior to 2004, the Board of Directors of the Foundation elected the members of the Board of Directors of Pendleton Memorial Methodist Hospital (PMMH), an acute care hospital located in eastern New Orleans. PMMH is considered a related party because certain members of the Board of Directors of the Foundation were also members of the Board of Directors of PMMH. As described in Note 8, during 2004 PMMH sold substantially all of its non-cash assets and current liabilities to an independent third party and contributed its residual assets after the sale to the Foundation.

Between May 4, 2001 and January 14, 2002, BSI made several loans to MBRP amounting to $425,000. Such loans were interest bearing with one year maturities. MBRP was unable to maintain the monthly interest payments and in conjunction with the write-off of the MBRP investment in 2002, the loan balances of $378,850 were fully reserved (see Note 8). During 2009, BSI consolidated the notes into a single, interest-bearing note which is due on demand. Interest income is recorded only as received. During 2012 and 2011, interest of $-0-, respectively, was received.

During 2004, PMMH donated to the Foundation a receivable from MBRP of $491,075. In 2007, $85,694 of payments were made by MBRP to the Foundation, leaving a balance of $395,381. No payments were received in 2012 or 2011. This amount is included in the consolidated statement of financial position as investments in and advances to affiliated entities. Management believes that no reserve is required on this additional receivable since it believes this amount to be fully collectible from future proceeds from the sale of the MBRP building (see Note 8).

The Foundation makes payments to a consulting company owned by one of its board members which joined the board during the fiscal year ending June 20, 2012. Payments for the year ended June 30, 2012 totaled $109,632.

Note 8. Investments in and Advances to Affiliated Entities

The balance in investments in and advances to affiliated entities at June 30, 2012 and 2011, comprises the following:

	2012	2011
Methodist Behavioral Resources Partnership		
Receivables Donated by PMMH	**$ 395,381**	$ 395,381
Loans Made by BSI	**378,850**	378,850
Reserve for Uncollectible Loans	**(378,850)**	(378,850)
Total	**$ 395,381**	$ 395,381

PMH, LLC

PMMH sold substantially all of its non-cash assets and current liabilities to UHS-Pendleton effective January 1, 2004. The sale was consummated through an asset transfer to the newly formed PMH, LLC in which PMMH retained 10% ownership interest. In January 2004, this ownership interest in PMH, LLC was donated to MHSF, and MHSF then made a capital contribution of the amount of the investment to HSN. The 10% interest in PMH, LLC donated to MHSF was initially valued at $12,010,000. An additional $2.1 million was contributed by the Foundation to PMH, LLC in 2004 to fund its share of PMH, LLC's acquisition of Lakeland Hospital, an acute care facility located in eastern New Orleans.

In 2005, an additional $662,169 was contributed by the Foundation to PMH, LLC to fund its share of PMH, LLC's acquisition of MASCP and Lake Forest Surgery. The Foundation's investment in PMH, LLC is accounted for at cost. Accordingly, earnings of PMH, LLC are not recognized by the Foundation until such amounts are distributed in cash. In December 2006 the Foundation exercised its put option to require PMH, LLC to purchase its 10% ownership interest in PMH, LLC and received cash payments of $14.7 million. See Note 11 for further discussion of the transaction.

PMMH

PMMH donated $58,500,000 to MHSF from the net proceeds of the sale after defeasing bonds and other liabilities during fiscal 2004. PMMH also donated to MHSF various investments and miscellaneous receivables totaling $3,805,522. PMMH will continue in existence for a few years to wind up its financial affairs, such as settling outstanding claims and liabilities and resolving open years regarding Medicare and Medicaid reimbursement. Once such matters are settled, PMMH will be dissolved, and residual assets, if any, will be donated to the Foundation. During 2005, additional contributions were received from PMMH of $3,576,236 representing excess funds accumulated during the wind-down phase. An additional $500,000 was received from PMMH as of June 30, 2008 as a result of a settlement of certain cost report liabilities. No additional funds have been received since June 30, 2008.

Note 8. Investments in and Advances to Affiliated Entities (Continued)

MBRP

BSI acquired its 50% interest in MBRP in December 1984 at the formation of MBRP. Condensed financial information of MBRP as of June 30, 2012 and 2011 is as follows:

	2012 (Unaudited)	2011 (Unaudited)
Assets		
Current Assets	$ 66,407	$ 90,633
Property - Net of Accumulated Depreciation	838,823	838,823
Total Assets	$ 905,230	$ 929,456
Liabilities and Partners' Deficit		
Current Liabilities	$ 527,916	$ 500,801
Long - Term Debt	757,700	757,700
Partners' Deficit	(380,386)	(329,045)
Total Liabilities and Partners' Deficit	$ 905,230	$ 929,456
Operations		
Operating Revenues	$ 897	$ 1,027
Operating Expenses	52,238	54,563
Net Loss	$ (51,341)	$ (53,536)

During 2001, MBRP began experiencing significant operating losses and cash flow shortages. On January 12, 2002, the psychiatric/behavioral modification facility was closed. MBRP sought a buyer for the facility without success. The facility remained vacant until January 2003, when MBRP entered into a lease with PMMH for the facility and certain furnishings. The lease was a five-year lease expiring in January 2008 and had three additional one-year extension options. The lease required monthly payments of $35,000. This lease was transferred to PMH, LLC on January 1, 2004, with the sale of the Hospital. The lease was terminated on August 29, 2005 as a result of Hurricane Katrina. BSI's investment in MBRP was written down to zero at June 30, 2002, and BSI has not recognized any income or loss from the rental operations of MBRP since that time.

The balance receivable from MBRP of $395,381 at June 30, 2012 and 2011, represent receivables donated by PMMH in conjunction with the sale of the Hospital (see Note 7). Management believes that such amounts should be fully collectible from the planned sale of the MBRP building. As of June 30, 2012 and 2011, no payments were made by MBRP.

Note 8. Investments in and Advances to Affiliated Entities (Continued)

MBRP (Continued)

Subsequent to Hurricane Katrina in August 2005, MBRP received insurance payments for the flooding and wind damage to the MBRP property. MBRP used those insurance proceeds to pay off all bank loans of the partnership, which were guaranteed on a joint-and-several basis by the three partners in MBRP, of which the Foundation is a 50% partner. As the debt was paid in 2006, the Foundation no longer has a contingent guarantee liability. MBRP is seeking a buyer for its building, the proceeds from which would enable it to liquidate its remaining liabilities. Long-term debt remaining at June 30, 2012 and 2011, consists of notes payable to the partners, including $378,850 owed to the Foundation, which has been fully reserved.

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011 are available for the following purposes:

	2012	2011
School-Based Health Center Building and Equipment	**$ 62,230**	$ 69,162
Good Samaritan Fund	**34,656**	34,376
Mackel Fund	**14,814**	14,814
Healthcare Education Scholarships	**-**	5,000
Total	**$ 111,700**	$ 123,352

Net assets were released from restrictions for the following:

	2012	2011
Furniture and Equipment for School-Based Health Clinic	**$ 11,930**	$ -
Total	**$ 11,930**	$ -

Note 10. Leases

During 2009, the Foundation entered into two operating leases for medical office space. Monthly payments were $959 for one lease and $989 for the second lease. Both leases expired in February 2012 but were extended beyond the maturity date with monthly payments of $988 and $1,019, respectively. Subsequent to year end, the leases were cancelled. The Foundation also leases a postage machine which requires quarterly payments of $480 and expires April 2013.

Minimum future rental payments under non-cancelable operating leases as of June 30, 2012 were due within one year and totaled $5,453.

Note 11. Medical Office Buildings and Settlement Agreement

As described in Note 8, the operation and maintenance of the medical office building was governed by property operating agreements, which included a risk-sharing clause requiring the Foundation to subsidize cash flows below established thresholds.

Such subsidies had been settled through August 2005; however, the lessee continued to assert its rights to such subsidies after Hurricane Katrina, even though the buildings were not viable for their intended use at the time due to the absence of an operating hospital nearby. In the absence of rental revenues to provide cash flow, such subsidies were estimated to approximate $1.5 million per year. A suit filed by the Foundation to terminate the property operating agreements was settled during fiscal year 2009. As a result of the settlement agreement, the Foundation is required to pay a total of $8,623,017. As of the date of settlement, management had accrued a total of $4,000,000 under the property operating agreements risk-sharing clause, which was adjusted to the actual settlement total. The balance owed was discounted using an effective interest rate of 1.11% and is on the consolidated statement of financial position as settlement liability. As of June 30, 2012, this liability has been paid in full.

In the settlement agreement, the property operating agreements remain in effect but the Foundation has no further obligation to make operation payments, or otherwise, pursuant to the property operating agreements. The Foundation has no further rights to share 40% of the operating profits and surrendered its right to control tenancy in the medical office buildings. The lessee has the right to terminate the property operating agreements, but if the building is sold, the agreements will terminate. The lessee has the sole discretion to sell the medical office. Since the property rights have in effect been transferred to the lessee, the medical office buildings and the associated accumulated depreciation were removed from the Foundation's consolidated statement of financial position.

Note 12. Concentration of Credit Risk

The financial instruments that potentially subject MHSF to a concentration of credit risk consist primarily of cash deposits and investments. At times, cash deposits may exceed the U.S. Federal Deposit Insurance Corporation limit. However, the Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash. Investments are subject to market risk which may result in losses.

Note 13. Accounting for Uncertain Tax Positions

The Foundation follows the provisions of the *Accounting for Uncertainty in Income Taxes* Topic of the FASB Accounting Standards Codification. All tax returns have been appropriately filed by the Foundation. The Foundation recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The Foundation's tax filings are subject to audit by various taxing authorities.

Note 13. Accounting for Uncertain Tax Positions (Continued)

The Foundation's open audit periods are 2008 through 2011. As of June 30, 2012, Management evaluated the Foundation's tax position and concluded that the Foundation has taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance.

Note 14. Subsequent Events

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, September 28, 2012, and determined that, other than as described in Note 10, no events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.