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|  |  |   |
|--|--|---|
| Form <b>990</b><br><br>Department of the Treasury<br>Internal Revenue Service | <b>Return of Organization Exempt From Income Tax</b><br><br><b>Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)</b> | OMB No 1545-0047<br><div> <div>2010</div> <div>Open to Public Inspection</div> </div> |
|  | The organization may have to use a copy of this return to satisfy state reporting requirements   |   |

|   |  |   |  |
|---|--|---|--|
| <b>A For the 2010 calendar year, or tax year beginning 10-01-2010 and ending 09-30-2011</b>   |  | <b>D Employer identification number</b> |  |
| <b>B</b> Check if applicable  | <b>C</b> Name of organization<br>Herbert J Thomas Memorial Hospital Association  |   | 55-0404900   |
| <input type="checkbox"/> Address change   | Doing Business As<br>Thomas Memorial Hospital  |   | <b>E Telephone number</b>  |
| <input type="checkbox"/> Name change  | Number and street (or P O box if mail is not delivered to street address)<br>4605 MacCorkle Avenue SW                        |   | (304) 766-3528   |
| <input type="checkbox"/> Initial return   | Room/suite   |   | <b>G</b> Gross receipts \$ 180,573,349   |
| <input type="checkbox"/> Terminated   | City or town, state or country, and ZIP + 4<br>South Charleston, WV 25309  |   |  |
| <input type="checkbox"/> Amended return   | <b>F</b> Name and address of principal officer<br>Stephen P Dexter<br>4605 MacCorkle Avenue SW<br>South Charleston, WV 25309 |   | <b>H(a)</b> Is this a group return for affiliates? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No                         |
| <input type="checkbox"/> Application pending  |  |   | <b>H(b)</b> Are all affiliates included? <input type="checkbox"/> Yes <input type="checkbox"/> No<br>If "No," attach a list (see instructions) |
| <b>I</b> Tax-exempt status <input checked="" type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) ( ) (insert no ) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527 |  | <b>H(c)</b> Group exemption number ▶    |  |
| <b>J Website:</b> ▶ www.thomaswv.org  |  |   |  |

|  |                                 |                                     |
|--|---------------------------------|-------------------------------------|
| <b>K</b> Form of organization <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶ | <b>L</b> Year of formation 1946 | <b>M</b> State of legal domicile WV |
|--|---------------------------------|-------------------------------------|

|               |                |
|---------------|----------------|
| <b>Part I</b> | <b>Summary</b> |
|---------------|----------------|

|   |  |             |                           |
|---|--|-------------|---------------------------|
| Activities & Governance   | 1 Briefly describe the organization's mission or most significant activities<br>To provide health care services to residents of South Charleston, WV and surrounding communities |             |                           |
|   | 2 Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets   |             |                           |
|   | 3 Number of voting members of the governing body (Part VI, line 1a) . . . . .  | 3           | 7                         |
|   | 4 Number of independent voting members of the governing body (Part VI, line 1b) . . . . .  | 4           | 6                         |
|   | 5 Total number of individuals employed in calendar year 2010 (Part V, line 2a) . . . . .   | 5           | 1,520                     |
|   | 6 Total number of volunteers (estimate if necessary) . . . . .   | 6           | 127                       |
|   | 7a Total unrelated business revenue from Part VIII, column (C), line 12 . . . . .  | 7a          | 1,301                     |
| 7b Net unrelated business taxable income from Form 990-T, line 34 . . . . . | 7b   | 0           |                           |
| Revenue   | 8 Contributions and grants (Part VIII, line 1h) . . . . .  | Prior Year  | Current Year              |
|   | 9 Program service revenue (Part VIII, line 2g) . . . . .   | 945,755     | 1,176,806                 |
|   | 10 Investment income (Part VIII, column (A), lines 3, 4, and 7d ) . . . . .  | 153,688,063 | 153,251,120               |
|   | 11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)  | 1,117,194   | 2,340,111                 |
|   | 12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12) . . . . .  | 2,291,621   | 2,577,763                 |
|   |  | 158,042,633 | 159,345,800               |
| Expenses  | 13 Grants and similar amounts paid (Part IX, column (A), lines 1–3 ) . . . . .   | 81,908      | 78,825                    |
|   | 14 Benefits paid to or for members (Part IX, column (A), line 4) . . . . .   | 0           | 0                         |
|   | 15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)   | 71,061,942  | 69,665,510                |
|   | 16a Professional fundraising fees (Part IX, column (A), line 11e) . . . . .  | 0           | 0                         |
|   | b Total fundraising expenses (Part IX, column (D), line 25) <input type="checkbox"/> 0   |             |                           |
|   | 17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24f) . . . . .  | 91,811,626  | 97,744,062                |
|   | 18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)  | 162,955,476 | 167,488,397               |
|   | 19 Revenue less expenses Subtract line 18 from line 12 . . . . .   | -4,912,843  | -8,142,597                |
|   | Net Assets or Fund Balances  |             | Beginning of Current Year |
| 20 Total assets (Part X, line 16) . . . . .                                 |  | 228,541,315 | 222,186,958               |
| 21 Total liabilities (Part X, line 26) . . . . .                            |  | 162,656,738 | 160,635,326               |
| 22 Net assets or fund balances Subtract line 21 from line 20 . . . . .      |  | 65,884,577  | 61,551,632                |

|                |                        |
|----------------|------------------------|
| <b>Part II</b> | <b>Signature Block</b> |
|----------------|------------------------|

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

|                               |   |  |   |                    |                             |
|-------------------------------|---|--|---|--------------------|-----------------------------|
| <b>Sign Here</b>              | *****<br>Signature of officer   |  |   | 2012-08-14<br>Date |                             |
|                               | Charles O Covert Vice President & CFO<br>Type or print name and title |  |   |                    |                             |
| <b>Paid Preparer Use Only</b> | Print/Type preparer's name      Harry C Harless                       |  | Preparer's signature      Harry C Harless |                    | Date                        |
|                               | Check if self-employed <input type="checkbox"/>                       |  |   |                    | PTIN                        |
|                               | Firm's name   ▶ Arnett & Foster PLLC                                  |  |   |                    | Firm's EIN   ▶              |
|                               | Firm's address   ▶ P O Box 2629<br>Charleston, WV 25329               |  |   |                    | Phone no   ▶ (304) 346-0441 |

May the IRS discuss this return with the preparer shown above? (see instructions) . . . . . ☒ Yes ☐ No

Part III

Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III

1

Briefly describe the organization’s mission

To provide health care services to residents of South Charleston, WV and surrounding communities

2

Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ?

☐ Yes

☒ No

If “Yes,” describe these new services on Schedule O

3

Did the organization cease conducting, or make significant changes in how it conducts, any program services?

☐ Yes

☒ No

If “Yes,” describe these changes on Schedule O

4

Describe the exempt purpose achievements for each of the organization’s three largest program services by expenses

Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a

(Code ) (Expenses \$ 163,518,922 including grants of \$ 78,825 ) (Revenue \$ 153,251,120 )

Services provided by the hospital include 52,297 inpatient days and 178,585 outpatient visits The hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates Charges forgone for charity amounted to \$5,462,032 The hospital provided community education activities and sponsors free health screening and wellness programs

4b

(Code ) (Expenses \$ including grants of \$ ) (Revenue \$ )

4c

(Code ) (Expenses \$ including grants of \$ ) (Revenue \$ )

4d



















Other program services (Describe in Schedule O )

(Expenses \$ including grants of \$ ) (Revenue \$ )

4e

Total program service expenses \$ 163,518,922

Part IV Checklist of Required Schedules

|   | Yes     | No |
|---|---------|----|
| 1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? If "Yes," complete Schedule A    | 1 Yes   |    |
| 2 Is the organization required to complete Schedule B, Schedule of Contributors (see instruction)?   | 2 Yes   |    |
| 3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "Yes," complete Schedule C, Part I   | 3       | No |
| 4 <b>Section 501(c)(3) organizations.</b> Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If "Yes," complete Schedule C, Part II    | 4 Yes   |    |
| 5 Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If "Yes," complete Schedule C, Part III   | 5       |    |
| 6 Did the organization maintain any donor advised funds or any similar funds or accounts where donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If "Yes," complete Schedule D, Part I   | 6       | No |
| 7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? If "Yes," complete Schedule D, Part II                                      | 7       | No |
| 8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III    | 8       | No |
| 9 Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? If "Yes," complete Schedule D, Part IV  | 9       | No |
| 10 Did the organization, directly or through a related organization, hold assets in term, permanent, or quasi-endowments? If "Yes," complete Schedule D, Part V    | 10      | No |
| 11 If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable   |         |    |
| a Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI.   | 11a Yes |    |
| b Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VII.    | 11b     | No |
| c Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VIII.    | 11c     | No |
| d Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part IX.    | 11d     | No |
| e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X.   | 11e Yes |    |
| f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? If "Yes," complete Schedule D, Part X.    | 11f     | No |
| 12a Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI, XII, and XIII    | 12a     | No |
| b Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional              | 12b Yes |    |
| 13 Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E  | 13      | No |
| 14a Did the organization maintain an office, employees, or agents outside of the United States?   | 14a     | No |
| b Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, and program service activities outside the United States? If "Yes," complete Schedule F, Parts I and IV   | 14b     | No |
| 15 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the U S ? If "Yes," complete Schedule F, Parts II and IV   | 15      | No |
| 16 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the U S ? If "Yes," complete Schedule F, Parts III and IV   | 16      | No |
| 17 Did the organization report a total of more than \$15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? If "Yes," complete Schedule G, Part I (see instructions)   | 17      | No |
| 18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? If "Yes," complete Schedule G, Part II   | 18      | No |
| 19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III   | 19      | No |
| 20a Did the organization operate one or more hospitals? If "Yes," complete Schedule H    | 20a Yes |    |
| b If "Yes" to line 20a, did the organization attach its audited financial statement to this return? <b>Note.</b> Some Form 990 filers that operate one or more hospitals must attach audited financial statements (see instructions)  | 20b Yes |    |

Part IV

Checklist of Required Schedules (continued)

|     |  |     |     |    |
|-----|--|-----|-----|----|
| 21  | Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i> . . . . .  | 21  | Yes |    |
| 22  | Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i> . . . . .   | 22  |     | No |
| 23  | Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i> . . . . .            | 23  | Yes |    |
| 24a | Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b–24d and complete Schedule K. If "No," go to line 25</i> . . . . . | 24a | Yes |    |
| b   | Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception? . . . .  | 24b |     | No |
| c   | Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds? . . . . .   | 24c |     | No |
| d   | Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year? . . . .  | 24d |     | No |
| 25a | <b>Section 501(c)(3) and 501(c)(4) organizations.</b> Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i> . . . . .  | 25a |     | No |
| b   | Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i> . . . . .   | 25b |     | No |
| 26  | Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i> . . . . .                                | 26  |     | No |
| 27  | Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If "Yes," complete Schedule L, Part III</i> . . . . .        | 27  |     | No |
| 28  | Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)  |     |     |    |
| a   | A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .   | 28a |     | No |
| b   | A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .  | 28b |     | No |
| c   | An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .  | 28c |     | No |
| 29  | Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i> . . . . .  | 29  |     | No |
| 30  | Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i> . . . . .  | 30  |     | No |
| 31  | Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i> . . . . .  | 31  |     | No |
| 32  | Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i> . . . . .  | 32  |     | No |
| 33  | Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i> . . . . .  | 33  |     | No |
| 34  | Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i> . . . . .   | 34  | Yes |    |
| 35  | Is any related organization a controlled entity within the meaning of section 512(b)(13)? . . . . .  | 35  |     | No |
| a   | Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .   |     |     |    |
| 36  | <b>Section 501(c)(3) organizations.</b> Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .   | 36  |     | No |
| 37  | Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i> . . . . .   | 37  |     | No |
| 38  | Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? <b>Note.</b> All Form 990 filers are required to complete Schedule O . . . . .   | 38  | Yes |    |

|   |  |            |           |
|---|--|------------|-----------|
| <b>Part V</b> <b>Statements Regarding Other IRS Filings and Tax Compliance</b>                  |  |            |           |
| Check if Schedule O contains a response to any question in this Part V <input type="checkbox"/> |  |            |           |
|   |  | <b>Yes</b> | <b>No</b> |
| <b>1a</b>   | Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.  | <b>1a</b>  | 166       |
| <b>b</b>  | Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.   | <b>1b</b>  | 0         |
| <b>c</b>  | Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?   | <b>1c</b>  | Yes       |
| <b>2a</b>   | Enter the number of employees reported on Form W-3, <i>Transmittal of Wage and Tax Statements</i> filed for the calendar year ending with or within the year covered by this return.   | <b>2a</b>  | 1,520     |
| <b>b</b>  | If at least one is reported on line 2a, did the organization file all required federal employment tax returns?<br><br><b>Note.</b> If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).                                      | <b>2b</b>  | Yes       |
| <b>3a</b>   | Did the organization have unrelated business gross income of \$1,000 or more during the year?  | <b>3a</b>  | Yes       |
| <b>b</b>  | If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O.  | <b>3b</b>  | Yes       |
| <b>4a</b>   | At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?                                   | <b>4a</b>  | No        |
| <b>b</b>  | If "Yes," enter the name of the foreign country: _____<br>See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.   |            |           |
| <b>5a</b>   | Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?  | <b>5a</b>  | No        |
| <b>b</b>  | Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?   | <b>5b</b>  | No        |
| <b>c</b>  | If "Yes" to line 5a or 5b, did the organization file Form 8886-T?  | <b>5c</b>  |           |
| <b>6a</b>   | Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible?  | <b>6a</b>  | No        |
| <b>b</b>  | If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?  | <b>6b</b>  |           |
| <b>7</b>  | <b>Organizations that may receive deductible contributions under section 170(c).</b>   |            |           |
| <b>a</b>  | Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?  | <b>7a</b>  | No        |
| <b>b</b>  | If "Yes," did the organization notify the donor of the value of the goods or services provided?  | <b>7b</b>  |           |
| <b>c</b>  | Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?   | <b>7c</b>  | No        |
| <b>d</b>  | If "Yes," indicate the number of Forms 8282 filed during the year.   | <b>7d</b>  |           |
| <b>e</b>  | Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?  | <b>7e</b>  | No        |
| <b>f</b>  | Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?   | <b>7f</b>  | No        |
| <b>g</b>  | If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?   | <b>7g</b>  |           |
| <b>h</b>  | If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?   | <b>7h</b>  |           |
| <b>8</b>  | <b>Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.</b> Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year? | <b>8</b>   |           |
| <b>9</b>  | <b>Sponsoring organizations maintaining donor advised funds.</b>   |            |           |
| <b>a</b>  | Did the organization make any taxable distributions under section 4966?  | <b>9a</b>  |           |
| <b>b</b>  | Did the organization make a distribution to a donor, donor advisor, or related person?   | <b>9b</b>  |           |
| <b>10</b>   | <b>Section 501(c)(7) organizations.</b> Enter:   |            |           |
| <b>a</b>  | Initiation fees and capital contributions included on Part VIII, line 12.  | <b>10a</b> |           |
| <b>b</b>  | Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.   | <b>10b</b> |           |
| <b>11</b>   | <b>Section 501(c)(12) organizations.</b> Enter:  |            |           |
| <b>a</b>  | Gross income from members or shareholders.   | <b>11a</b> |           |
| <b>b</b>  | Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).   | <b>11b</b> |           |
| <b>12a</b>  | <b>Section 4947(a)(1) non-exempt charitable trusts.</b> Is the organization filing Form 990 in lieu of Form 1041?  | <b>12a</b> |           |
| <b>b</b>  | If "Yes," enter the amount of tax-exempt interest received or accrued during the year.   | <b>12b</b> |           |
| <b>13</b>   | <b>Section 501(c)(29) qualified nonprofit health insurance issuers.</b>  |            |           |
| <b>a</b>  | Is the organization licensed to issue qualified health plans in more than one state?<br><b>Note.</b> See the instructions for additional information the organization must report on Schedule O.   | <b>13a</b> |           |
| <b>b</b>  | Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.   | <b>13b</b> |           |
| <b>c</b>  | Enter the amount of reserves on hand.  | <b>13c</b> |           |
| <b>14a</b>  | Did the organization receive any payments for indoor tanning services during the tax year?   | <b>14a</b> | No        |
| <b>b</b>  | If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.   | <b>14b</b> |           |

Part VI

Governance, Management, and Disclosure

For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.  
Check if Schedule O contains a response to any question in this Part VI

Section A. Governing Body and Management

|    |   |     |     |    |
|----|---|-----|-----|----|
|    |   |     | Yes | No |
| 1a | Enter the number of voting members of the governing body at the end of the tax year   | 1a7 |     |    |
| b  | Enter the number of voting members included in line 1a, above, who are independent  | 1b6 |     |    |
| 2  | Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?   | 2   |     | No |
| 3  | Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person? | 3   |     | No |
| 4  | Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?  | 4   |     | No |
| 5  | Did the organization become aware during the year of a significant diversion of the organization's assets?  | 5   |     | No |
| 6  | Does the organization have members or stockholders?   | 6   | Yes |    |
| 7a | Does the organization have members, stockholders, or other persons who may elect one or more members of the governing body?   | 7a  | Yes |    |
| b  | Are any decisions of the governing body subject to approval by members, stockholders, or other persons?   | 7b  |     | No |
| 8  | Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following  |     |     |    |
| a  | The governing body?   | 8a  | Yes |    |
| b  | Each committee with authority to act on behalf of the governing body?   | 8b  | Yes |    |
| 9  | Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O        | 9   |     | No |

Section B. Policies

(This Section B requests information about policies not required by the Internal Revenue Code.)

|     |  |     |     |    |
|-----|--|-----|-----|----|
|     |  |     | Yes | No |
| 10a | Does the organization have local chapters, branches, or affiliates?  | 10a |     | No |
| b   | If "Yes," does the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with those of the organization?   | 10b |     |    |
| 11a | Has the organization provided a copy of this Form 990 to all members of its governing body before filing the form?   | 11a |     | No |
| b   | Describe in Schedule O the process, if any, used by the organization to review this Form 990   |     |     |    |
| 12a | Does the organization have a written conflict of interest policy? If "No," go to line 13   | 12a | Yes |    |
| b   | Are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?  | 12b | Yes |    |
| c   | Does the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this is done   | 12c | Yes |    |
| 13  | Does the organization have a written whistleblower policy?   | 13  | Yes |    |
| 14  | Does the organization have a written document retention and destruction policy?  | 14  | Yes |    |
| 15  | Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?   |     |     |    |
| a   | The organization's CEO, Executive Director, or top management official   | 15a | Yes |    |
| b   | Other officers or key employees of the organization  | 15b | Yes |    |
|     | If "Yes" to line 15a or 15b, describe the process in Schedule O (See instructions)   |     |     |    |
| 16a | Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?  | 16a |     | No |
| b   | If "Yes," has the organization adopted a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and taken steps to safeguard the organization's exempt status with respect to such arrangements? | 16b |     |    |

Section C. Disclosure

|    |  |
|----|--|
| 17 | List the States with which a copy of this Form 990 is required to be filed   |
| 18 | Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c) (3)s only) available for public inspection. Indicate how you make these available. Check all that apply.<br><input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request |
| 19 | Describe in Schedule O whether (and if so, how), the organization makes its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table.   |
| 20 | State the name, physical address, and telephone number of the person who possesses the books and records of the organization.<br>Charles O Covert<br>4605 MacCorkle Ave SW<br>South Charleston, WV 25309<br>(304) 766-3528   |

Part VII

Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response to any question in this Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

**1a** Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees. Enter -0- in columns (D), (E), and (F) if no compensation was paid.
- List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons.

☐ Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee

| (A)<br>Name and Title                               | (B)<br>Average hours per week (describe hours for related organizations in Schedule O) | (C)<br>Position (check all that apply) |                       |         |              |                              |        | (D)<br>Reportable compensation from the organization (W-2/1099-MISC) | (E)<br>Reportable compensation from related organizations (W-2/1099-MISC) | (F)<br>Estimated amount of other compensation from the organization and related organizations |
|---|--|--|-----------------------|---------|--------------|------------------------------|--------|--|---|---|
|   |  | Individual trustee or director         | Institutional Trustee | Officer | Key employee | Highest compensated employee | Former |  |   |   |
| (1) Michael DeWitt<br>Secretary                     | 1.00   | X                                      |                       |         |              |                              |        | 0  | 0   | 0   |
| (2) Daniel J. Lauffer<br>Trustee                    | 1.00   | X                                      |                       |         |              |                              |        | 0  | 392,918   | 55,981  |
| (3) Tom McHugh<br>Chairman                          | 1.00   | X                                      |                       |         |              |                              |        | 0  | 0   | 0   |
| (4) Darshan Dave<br>Trustee                         | 1.00   | X                                      |                       |         |              |                              |        | 0  | 0   | 0   |
| (5) Steve White<br>Trustee                          | 1.00   | X                                      |                       |         |              |                              |        | 0  | 0   | 0   |
| (6) Nancy Fox<br>Trustee                            | 1.00   | X                                      |                       |         |              |                              |        | 0  | 0   | 0   |
| (7) Grace Heyliger<br>Trustee                       | 1.00   | X                                      |                       |         |              |                              |        | 0  | 0   | 0   |
| (8) Stephen P. Dexter<br>President/CEO              | 40.00  |  |                       | X       |              |                              |        | 619,100  | 0   | 23,660  |
| (9) Charles O. Covert<br>Vice President/CFO         | 40.00  |  |                       | X       |              |                              |        | 281,829  | 0   | 24,058  |
| (10) Robert J. Gray<br>Vice President               | 40.00  |  |                       | X       |              |                              |        | 258,454  | 0   | 23,830  |
| (11) Cynthia W. Barnette<br>Vice President          | 40.00  |  |                       | X       |              |                              |        | 258,568  | 0   | 23,810  |
| (12) Tarek Anderson<br>Neonatologist                | 40.00  |  |                       |         |              | X                            |        | 288,506  | 0   | 19,592  |
| (13) Magdalenó Nucum<br>House Physician             | 40.00  |  |                       |         |              | X                            |        | 160,388  | 0   | 15,443  |
| (14) William Priddy<br>Director of Pharmacy         | 40.00  |  |                       |         |              | X                            |        | 157,877  | 0   | 19,361  |
| (15) Mary Beth Smith<br>Director of Human Resources | 40.00  |  |                       |         |              | X                            |        | 153,708  | 0   | 4,563   |
| (16) Carmelita Bautista<br>House Physician          | 40.00  |  |                       |         |              | X                            |        | 149,746  | 0   | 19,571  |
|   |  |  |                       |         |              |                              |        |  |   |   |



## Part VII

| (A)<br>Name and Title | (B)<br>Average hours per week (describe hours for related organizations in Schedule O) | (C)<br>Position (check all that apply) |                       |         |              |                              |        | (D)<br>Reportable compensation from the organization (W-2/1099-MISC) | (E)<br>Reportable compensation from related organizations (W-2/1099-MISC) | (F)<br>Estimated amount of other compensation from the organization and related organizations |
|-----------------------|--|--|-----------------------|---------|--------------|------------------------------|--------|--|---|---|
|                       |  | Individual trustee or director         | Institutional Trustee | Officer | Key employee | Highest compensated employee | Former |  |   |   |
|                       |  |  |                       |         |              |                              |        |  |   |   |
|                       |  |  |                       |         |              |                              |        |  |   |   |
|                       |  |  |                       |         |              |                              |        |  |   |   |
|                       |  |  |                       |         |              |                              |        |  |   |   |
|                       |  |  |                       |         |              |                              |        |  |   |   |
|                       |  |  |                       |         |              |                              |        |  |   |   |
|                       |  |  |                       |         |              |                              |        |  |   |   |
|                       |  |  |                       |         |              |                              |        |  |   |   |
|                       |  |  |                       |         |              |                              |        |  |   |   |
|                       |  |  |                       |         |              |                              |        |  |   |   |
|                       |  |  |                       |         |              |                              |        |  |   |   |
| <b>1b</b>             | <b>Sub-Total</b>   |  |                       |         |              |                              |        |  |   |   |
| <b>c</b>              | <b>Total from continuation sheets to Part VII, Section A</b>                           |  |                       |         |              |                              |        |  |   |   |
| <b>d</b>              | <b>Total (add lines 1b and 1c)</b>   |  |                       |         |              |                              |        | 2,328,176  | 392,918   | 229,869   |

2 Total number of individuals (including but not limited to those listed above) who received more than \$100,000 in reportable compensation from the organization: 36

|   |   | Yes | No  |
|---|---|-----|-----|
| 3 | Did the organization list any <b>former</b> officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i> . . . . .  | 3   | No  |
| 4 | For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i> . . . . . | 4   | Yes |
| 5 | Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i> . . . . .                       | 5   | No  |

## Section B. Independent Contractors

**1** Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization

| (A)<br>Name and business address   | (B)<br>Description of services | (C)<br>Compensation |
|--|--------------------------------|---------------------|
| Advanced Technical Solutions<br>107 Erskine Lane<br>Scott Depot, WV 25560  | Computer consulting            | 1,808,679           |
| Professional Anesthesia Associates<br>110 Roane St<br>Charleston, WV 25302   | Anesthesia service             | 1,273,820           |
| Hospital Medicine Group<br>4535 Dressler Rd NW<br>Canton, OH 44718   | Hospitalist service            | 915,800             |
| FFF Enterprises<br>PO Box 840150<br>Los Angeles, CA 900840150  | Reference lab service          | 864,465             |
| Aramark<br>25271 Network Place<br>Chicago, IL 606731252  | Nutrition service management   | 775,649             |
| <b>2</b> Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 in compensation from the organization <b>130</b> |                                |                     |

Part VIII

Statement of Revenue

|   |  |   |  |               | (A)<br>Total revenue | (B)<br>Related or<br>exempt<br>function<br>revenue | (C)<br>Unrelated<br>business<br>revenue | (D)<br>Revenue<br>excluded<br>from<br>tax<br>under<br>sections<br><br>512,<br>513, or<br>514 |             |             |         |
|---|--|---|--|---------------|----------------------|--|---|--|-------------|-------------|---------|
| Contributions, gifts, grants<br>and other similar amounts | 1a   | Federated campaigns . . .   | 1a   |               | 1,176,806            |  |   |  |             |             |         |
|   | b  | Membership dues . . . . .   | 1b   |               |                      |  |   |  |             |             |         |
|   | c  | Fundraising events . . . . .  | 1c   |               |                      |  |   |  |             |             |         |
|   | d  | Related organizations . . . . .   | 1d   | 1,154,930     |                      |  |   |  |             |             |         |
|   | e  | Government grants (contributions)   | 1e   |               |                      |  |   |  |             |             |         |
|   | f  | All other contributions, gifts, grants, and<br>similar amounts not included above   | 1f   | 21,876        |                      |  |   |  |             |             |         |
|   | g  | Noncash contributions included in lines 1a-1f \$  |  |               |                      |  |   |  |             |             |         |
|   | h  | Total. Add lines 1a-1f . . . . .  |  |               |                      |  |   |  |             |             |         |
|   | Program Service Revenue  | 2a  | Business Code  |               |                      |  |   |  | 153,251,120 | 153,251,120 |         |
|   |  | Patient services  | 622110   |               |                      |  |   |  |             |             |         |
| b   |  |   |  |               |                      |  |   |  |             |             |         |
| c   |  |   |  |               |                      |  |   |  |             |             |         |
| d   |  |   |  |               |                      |  |   |  |             |             |         |
| e   |  |   |  |               |                      |  |   |  |             |             |         |
| f   |  | All other program service revenue   |  |               |                      |  |   |  |             |             |         |
| g   |  | Total. Add lines 2a-2f . . . . .  |  |               | 153,251,120          |  |   |  |             |             |         |
| Other Revenue   |  | 3   | Investment income (including dividends, interest<br>and other similar amounts) . . . . . |               |                      | 1,279,222  |   | 1,301  |             |             |         |
|   | 4  | Income from investment of tax-exempt bond proceeds . . .  |  |               |                      |  |   |  |             |             |         |
|   | 5  | Royalties . . . . .   |  |               |                      |  |   |  |             |             |         |
|   | 6a   | (i) Real  |  | (ii) Personal | 1,471,640            |  |   | 1,471,640  |             |             |         |
|   |  | 1,471,640   |  |               |                      |  |   |  |             |             |         |
|   |  |   |  |               |                      |  |   |  |             |             |         |
|   |  | 1,471,640   |  |               |                      |  |   |  |             |             |         |
|   | b  | Less rental expenses  |  |               |                      |  |   |  |             |             |         |
|   | c  | Rental income or (loss)   |  |               |                      |  |   |  |             |             |         |
|   | d  | Net rental income or (loss) . . . . .   |  |               | 1,471,640            |  |   |  |             |             |         |
|   | 7a   | (i) Securities  |  | (ii) Other    | 1,060,889            |  |   | 1,060,889  |             |             |         |
|   |  | 22,288,438  |  |               |                      |  |   |  |             |             |         |
|   |  | 21,227,549  |  |               |                      |  |   |  |             |             |         |
|   |  | 1,060,889   |  |               |                      |  |   |  |             |             |         |
|   | b  | Less cost or other basis and sales expenses   |  |               |                      |  |   |  |             |             |         |
|   | c  | Gain or (loss)  |  |               |                      |  |   |  |             |             |         |
|   | d  | Net gain or (loss) . . . . .  |  |               | 1,060,889            |  |   |  |             |             |         |
|   | 8a   | Gross income from fundraising events (not including<br>\$ _____ of contributions reported on line 1c)<br>See Part IV, line 18 . . . . . |  |               |                      |  |   |  |             |             |         |
|   |  | a   |  |               |                      |  |   |  |             |             |         |
|   |  |   |  |               |                      |  |   |  |             |             |         |
|   | b  | Less direct expenses . . . . .  |  |               |                      |  |   |  |             |             |         |
| c   | Net income or (loss) from fundraising events . . .             |   |  |               |                      |  |   |  |             |             |         |
| 9a  | Gross income from gaming activities See Part IV, line 19 . . . |   |  |               |                      |  |   |  |             |             |         |
|   | a  |   |  |               |                      |  |   |  |             |             |         |
|   |  |   |  |               |                      |  |   |  |             |             |         |
| b   | Less direct expenses . . . . .                                 |   |  |               |                      |  |   |  |             |             |         |
| c   | Net income or (loss) from gaming activities . . .              |   |  |               |                      |  |   |  |             |             |         |
| 10a   | Gross sales of inventory, less returns and allowances . . .    |   |  |               |                      |  |   |  |             |             |         |
|   | a  |   |  |               |                      |  |   |  |             |             |         |
|   |  |   |  |               |                      |  |   |  |             |             |         |
| b   | Less cost of goods sold . . . . .                              |   |  |               |                      |  |   |  |             |             |         |
| c   | Net income or (loss) from sales of inventory . . .             |   |  |               |                      |  |   |  |             |             |         |
| Miscellaneous Revenue                                     |  |   |  | Business Code | 610,069              |  |   | 610,069  |             |             |         |
| 11a   | Cafeteria & vending  |   |  | 722212        |                      |  |   |  |             |             |         |
| b   | Other income   |   |  | 900099        |                      |  |   |  | 304,488     |             | 304,488 |
| c   | Parking  |   |  | 812930        |                      |  |   |  | 191,566     |             | 191,566 |
| d   | All other revenue . . . . .                                    |   |  |               |                      |  |   |  |             |             |         |
| e   | Total. Add lines 11a-11d . . . . .                             |   |  | 1,106,123     |                      |  |   |  |             |             |         |
| 12  | Total revenue. See Instructions . . . . .                      |   |  | 159,345,800   | 153,251,120          | 1,301  | 4,916,573                               |  |             |             |         |

Part IX

Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns.

All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D).

| Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII. |  | (A)<br>Total expenses | (B)<br>Program service expenses | (C)<br>Management and general expenses | (D)<br>Fundraising expenses |
|--|--|-----------------------|---------------------------------|--|-----------------------------|
| 1  | Grants and other assistance to governments and organizations in the U S See Part IV, line 21   | 78,825                | 78,825                          |  |                             |
| 2  | Grants and other assistance to individuals in the U S See Part IV, line 22   |                       |                                 |  |                             |
| 3  | Grants and other assistance to governments, organizations, and individuals outside the U S See Part IV, lines 15 and 16  |                       |                                 |  |                             |
| 4  | Benefits paid to or for members  |                       |                                 |  |                             |
| 5  | Compensation of current officers, directors, trustees, and key employees . . . . .   | 1,548,634             | 1,514,254                       | 34,380                                 |                             |
| 6  | Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) . . . . .  |                       |                                 |  |                             |
| 7  | Other salaries and wages   | 50,978,578            | 49,846,854                      | 1,131,724                              |                             |
| 8  | Pension plan contributions (include section 401(k) and section 403(b) employer contributions) . . . . .  | 5,620,605             | 5,495,828                       | 124,777                                |                             |
| 9  | Other employee benefits . . . . .  | 7,840,598             | 7,666,537                       | 174,061                                |                             |
| 10   | Payroll taxes . . . . .  | 3,677,095             | 3,595,463                       | 81,632                                 |                             |
| a  | Fees for services (non-employees)  |                       |                                 |  |                             |
|  | Management . . . . .   |                       |                                 |  |                             |
| b  | Legal . . . . .  | 188,964               |                                 | 188,964                                |                             |
| c  | Accounting . . . . .   | 262,381               |                                 | 262,381                                |                             |
| d  | Lobbying . . . . .   |                       |                                 |  |                             |
| e  | Professional fundraising services See Part IV, line 17 . . . . .   |                       |                                 |  |                             |
| f  | Investment management fees . . . . .   |                       |                                 |  |                             |
| g  | Other . . . . .  | 10,841,965            | 10,601,273                      | 240,692                                |                             |
| 12   | Advertising and promotion . . . . .  | 771,818               | 754,684                         | 17,134                                 |                             |
| 13   | Office expenses . . . . .  | 36,876,038            | 36,057,390                      | 818,648                                |                             |
| 14   | Information technology . . . . .   | 3,146,729             | 3,076,872                       | 69,857                                 |                             |
| 15   | Royalties . . . . .  |                       |                                 |  |                             |
| 16   | Occupancy . . . . .  | 4,103,597             | 4,012,497                       | 91,100                                 |                             |
| 17   | Travel . . . . .   | 104,224               | 101,910                         | 2,314                                  |                             |
| 18   | Payments of travel or entertainment expenses for any federal, state, or local public officials . . . . .   |                       |                                 |  |                             |
| 19   | Conferences, conventions, and meetings . . . . .   |                       |                                 |  |                             |
| 20   | Interest . . . . .   | 6,225,647             | 6,087,438                       | 138,209                                |                             |
| 21   | Payments to affiliates . . . . .   |                       |                                 |  |                             |
| 22   | Depreciation, depletion, and amortization . . . . .  | 11,817,533            | 11,555,184                      | 262,349                                |                             |
| 23   | Insurance . . . . .  | 2,245,040             | 2,195,200                       | 49,840                                 |                             |
| 24   | Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O )  |                       |                                 |  |                             |
| a  | Bad debts  | 14,138,705            | 14,138,705                      |  |                             |
| b  | Healthcare provider tax  | 2,864,533             | 2,864,533                       |  |                             |
| c  | Sales & use tax  | 1,756,802             | 1,717,801                       | 39,001                                 |                             |
| d  | Red Cross fees & transp  | 963,518               | 942,128                         | 21,390                                 |                             |
| e  | Dues and subscriptions   | 394,388               | 385,633                         | 8,755                                  |                             |
| f  | All other expenses   | 1,042,180             | 829,913                         | 212,267                                |                             |
| 25   | Total functional expenses. Add lines 1 through 24f   | 167,488,397           | 163,518,922                     | 3,969,475                              | 0                           |
| 26   | Joint costs. Check here <input checked="" type="checkbox"/> if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation |                       |                                 |  |                             |

Part X

Balance Sheet

|                             |   |   |     |             | (A)               |             | (B)         |
|-----------------------------|---|---|-----|-------------|-------------------|-------------|-------------|
|                             |   |   |     |             | Beginning of year |             | End of year |
| Assets                      | 1   | Cash—non-interest-bearing . . . . .   |     |             | 486,659           | 1           | 441,331     |
|                             | 2   | Savings and temporary cash investments . . . . .  |     |             | 43,896,159        | 2           | 42,040,443  |
|                             | 3   | Pledges and grants receivable, net . . . . .  |     |             |                   | 3           |             |
|                             | 4   | Accounts receivable, net . . . . .  |     |             | 14,713,912        | 4           | 15,480,102  |
|                             | 5   | Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L . . . . .   |     |             |                   | 5           |             |
|                             | 6   | Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers, and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions) Schedule L . . . . . |     |             |                   | 6           |             |
|                             | 7   | Notes and loans receivable, net . . . . .   |     |             |                   | 7           |             |
|                             | 8   | Inventories for sale or use . . . . .   |     |             | 3,315,192         | 8           | 3,125,418   |
|                             | 9   | Prepaid expenses and deferred charges . . . . .   |     |             | 1,049,077         | 9           | 1,286,698   |
|                             | 10a   | Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D . . . . .   | 10a | 285,073,234 |                   |             |             |
|                             | b   | Less: accumulated depreciation . . . . .  | 10b | 145,820,807 | 146,343,378       | 10c         | 139,252,427 |
|                             | 11  | Investments—publicly traded securities . . . . .  |     |             | 16,097,447        | 11          | 17,904,904  |
|                             | 12  | Investments—other securities. See Part IV, line 11 . . . . .  |     |             | 323,552           | 12          | 569,249     |
|                             | 13  | Investments—program-related. See Part IV, line 11 . . . . .   |     |             |                   | 13          |             |
|                             | 14  | Intangible assets . . . . .   |     |             |                   | 14          |             |
|                             | 15  | Other assets. See Part IV, line 11 . . . . .  |     |             | 2,315,939         | 15          | 2,086,386   |
| 16                          | Total assets. Add lines 1 through 15 (must equal line 34) . . . . .   |   |     | 228,541,315 | 16                | 222,186,958 |             |
| Liabilities                 | 17  | Accounts payable and accrued expenses . . . . .   |     |             | 12,166,840        | 17          | 12,780,294  |
|                             | 18  | Grants payable . . . . .  |     |             |                   | 18          |             |
|                             | 19  | Deferred revenue . . . . .  |     |             |                   | 19          | 49,163      |
|                             | 20  | Tax-exempt bond liabilities . . . . .   |     |             | 102,016,018       | 20          | 102,127,331 |
|                             | 21  | Escrow or custodial account liability. Complete Part IV of Schedule D . . . . .   |     |             |                   | 21          |             |
|                             | 22  | Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L . . . . .  |     |             |                   | 22          |             |
|                             | 23  | Secured mortgages and notes payable to unrelated third parties . . . . .  |     |             | 197,443           | 23          | 145,833     |
|                             | 24  | Unsecured notes and loans payable to unrelated third parties . . . . .  |     |             |                   | 24          |             |
|                             | 25  | Other liabilities. Complete Part X of Schedule D . . . . .  |     |             | 48,276,437        | 25          | 45,532,705  |
|                             | 26  | Total liabilities. Add lines 17 through 25 . . . . .  |     |             | 162,656,738       | 26          | 160,635,326 |
| Net Assets or Fund Balances | Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34. |   |     |             |                   |             |             |
|                             | 27  | Unrestricted net assets . . . . .   |     |             | 65,884,577        | 27          | 61,551,632  |
|                             | 28  | Temporarily restricted net assets . . . . .   |     |             |                   | 28          |             |
|                             | 29  | Permanently restricted net assets . . . . .   |     |             |                   | 29          |             |
|                             | Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.                          |   |     |             |                   |             |             |
|                             | 30  | Capital stock or trust principal, or current funds . . . . .  |     |             |                   | 30          |             |
|                             | 31  | Paid-in or capital surplus, or land, building or equipment fund . . . . .   |     |             |                   | 31          |             |
|                             | 32  | Retained earnings, endowment, accumulated income, or other funds . . . . .  |     |             |                   | 32          |             |
|                             | 33  | Total net assets or fund balances . . . . .   |     |             | 65,884,577        | 33          | 61,551,632  |
|                             | 34  | Total liabilities and net assets/fund balances . . . . .  |     |             | 228,541,315       | 34          | 222,186,958 |

Part XI

Reconciliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI . . . . . ☒

|   |   |   |             |
|---|---|---|-------------|
| 1 | Total revenue (must equal Part VIII, column (A), line 12)   | 1 | 159,345,800 |
| 2 | Total expenses (must equal Part IX, column (A), line 25)  | 2 | 167,488,397 |
| 3 | Revenue less expenses Subtract line 2 from line 1   | 3 | -8,142,597  |
| 4 | Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))                     | 4 | 65,884,577  |
| 5 | Other changes in net assets or fund balances (explain in Schedule O)  | 5 | 3,809,652   |
| 6 | Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B)) | 6 | 61,551,632  |

Part XII

Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII . . . . . ☐

|    |  | Yes | No |
|----|--|-----|----|
| 1  | Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other _____<br>If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O  |     |    |
| 2a | Were the organization's financial statements compiled or reviewed by an independent accountant?  |     | No |
| b  | Were the organization's financial statements audited by an independent accountant?   | Yes |    |
| c  | If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant?<br>If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O | Yes |    |
| d  | If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both<br><input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separated basis             |     |    |
| 3a | As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?   |     | No |
| b  | If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits   |     |    |

SCHEDULE A  
(Form 990 or 990EZ)

Department of the Treasury  
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

► Attach to Form 990 or Form 990-EZ. ► See separate instructions.

OMB No 1545-0047

2010

Open to Public Inspection

|  |  |
|--|--|
| Name of the organization<br>Herbert J Thomas Memorial Hospital Association | Employer identification number<br>55-0404900 |
|--|--|

Part I

Reason for Public Charity Status (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box )

- 1

☐

A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i).**
- 2

☐

A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E )
- 3

☒

A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**
- 4

☐

A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state
- 5

☐

An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II )
- 6

☐

A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**
- 7

☐

An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II )
- 8

☐

A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II )
- 9

☐

An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III )
- 10

☐

An organization organized and operated exclusively to test for public safety See**section 509(a)(4).**
- 11

☐

An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h  

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Other
- e

☐

By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)
- f

☐

If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box
- g

☐

Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?  

(i)

a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization?

(ii)

a family member of a person described in (i) above?

(iii)

a 35% controlled entity of a person described in (i) or (ii) above?
- h

☐

Provide the following information about the supported organization(s)

|          | Yes | No |
|----------|-----|----|
| 11g(i)   |     |    |
| 11g(ii)  |     |    |
| 11g(iii) |     |    |

| (i)<br>Name of supported organization | (ii)<br>EIN | (iii)<br>Type of organization (described on lines 1- 9 above or IRC section (see instructions)) | (iv)<br>Is the organization in col (i) listed in your governing document? |    | (v)<br>Did you notify the organization in col (i) of your support? |    | (vi)<br>Is the organization in col (i) organized in the U S ? |    | (vii)<br>Amount of support |
|---------------------------------------|-------------|---|---|----|--|----|---|----|----------------------------|
|                                       |             |   | Yes   | No | Yes  | No | Yes   | No |                            |
|                                       |             |   |   |    |  |    |   |    |                            |
|                                       |             |   |   |    |  |    |   |    |                            |
|                                       |             |   |   |    |  |    |   |    |                            |
|                                       |             |   |   |    |  |    |   |    |                            |
|                                       |             |   |   |    |  |    |   |    |                            |
|                                       |             |   |   |    |  |    |   |    |                            |
| Total                                 |             |   |   |    |  |    |   |    |                            |

Part II

Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)

(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

| Section A. Public Support   |          |          |          |          |          |           |
|---|----------|----------|----------|----------|----------|-----------|
| Calendar year (or fiscal year beginning in) ▶   | (a) 2006 | (b) 2007 | (c) 2008 | (d) 2009 | (e) 2010 | (f) Total |
| 1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")   |          |          |          |          |          |           |
| 2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf   |          |          |          |          |          |           |
| 3 The value of services or facilities furnished by a governmental unit to the organization without charge   |          |          |          |          |          |           |
| 4 Total. Add lines 1 through 3  |          |          |          |          |          |           |
| 5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f) |          |          |          |          |          |           |
| 6 Public Support. Subtract line 5 from line 4   |          |          |          |          |          |           |

| Section B. Total Support  |          |          |          |          |          |           |
|---|----------|----------|----------|----------|----------|-----------|
| Calendar year (or fiscal year beginning in) ▶   | (a) 2006 | (b) 2007 | (c) 2008 | (d) 2009 | (e) 2010 | (f) Total |
| 7 Amounts from line 4   |          |          |          |          |          |           |
| 8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources  |          |          |          |          |          |           |
| 9 Net income from unrelated business activities, whether or not the business is regularly carried on  |          |          |          |          |          |           |
| 10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV )   |          |          |          |          |          |           |
| 11 Total support (Add lines 7 through 10)   |          |          |          |          |          |           |
| 12 Gross receipts from related activities, etc (See instructions )  |          |          |          |          | 12       |           |
| 13 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here ▶ |          |          |          |          |          |           |

| Section C. Computation of Public Support Percentage  |  |  |  |  |    |  |
|--|--|--|--|--|----|--|
| 14 Public Support Percentage for 2010 (line 6 column (f) divided by line 11 column (f))  |  |  |  |  | 14 |  |
| 15 Public Support Percentage for 2009 Schedule A, Part II, line 14   |  |  |  |  | 15 |  |
| 16a 33 1/3% support test—2010. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶   |  |  |  |  |    |  |
| b 33 1/3% support test—2009. If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶  |  |  |  |  |    |  |
| 17a 10%-facts-and-circumstances test—2010. If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶    |  |  |  |  |    |  |
| b 10%-facts-and-circumstances test—2009. If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶ |  |  |  |  |    |  |
| 18 Private Foundation If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions ▶  |  |  |  |  |    |  |

Part III

Support Schedule for Organizations Described in Section 509(a)(2)  
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

| Section A. Public Support  |          |          |          |          |          |           |
|--|----------|----------|----------|----------|----------|-----------|
| Calendar year (or fiscal year beginning in)   | (a) 2006 | (b) 2007 | (c) 2008 | (d) 2009 | (e) 2010 | (f) Total |
| 1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")  |          |          |          |          |          |           |
| 2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose |          |          |          |          |          |           |
| 3 Gross receipts from activities that are not an unrelated trade or business under section 513   |          |          |          |          |          |           |
| 4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf  |          |          |          |          |          |           |
| 5 The value of services or facilities furnished by a governmental unit to the organization without charge  |          |          |          |          |          |           |
| 6 Total. Add lines 1 through 5   |          |          |          |          |          |           |
| 7a Amounts included on lines 1, 2, and 3 received from disqualified persons  |          |          |          |          |          |           |
| b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year           |          |          |          |          |          |           |
| c Add lines 7a and 7b  |          |          |          |          |          |           |
| 8 Public Support (Subtract line 7c from line 6 )   |          |          |          |          |          |           |

| Section B. Total Support  |          |          |          |          |          |           |
|---|----------|----------|----------|----------|----------|-----------|
| Calendar year (or fiscal year beginning in)    | (a) 2006 | (b) 2007 | (c) 2008 | (d) 2009 | (e) 2010 | (f) Total |
| 9 Amounts from line 6   |          |          |          |          |          |           |
| 10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources  |          |          |          |          |          |           |
| b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975   |          |          |          |          |          |           |
| c Add lines 10a and 10b   |          |          |          |          |          |           |
| 11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on  |          |          |          |          |          |           |
| 12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV )  |          |          |          |          |          |           |
| 13 Total support (Add lines 9, 10c, 11 and 12 )   |          |          |          |          |          |           |
| 14 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section501(c)(3) organization, check this box and <b>stop here</b>  |          |          |          |          |          |           |

| Section C. Computation of Public Support Percentage                                     |    |  |
|---|----|--|
| 15 Public Support Percentage for 2010 (line 8 column (f) divided by line 13 column (f)) | 15 |  |
| 16 Public support percentage from 2009 Schedule A, Part III, line 15                    | 16 |  |

| Section D. Computation of Investment Income Percentage   |    |  |
|--|----|--|
| 17 Investment income percentage for 2010 (line 10c column (f) divided by line 13 column (f))   | 17 |  |
| 18 Investment income percentage from 2009 Schedule A, Part III, line 17  | 18 |  |
| 19a 33 1/3% support tests—2010. If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and <b>stop here</b> . The organization qualifies as a publicly supported organization          |    |  |
| b 33 1/3% support tests—2009. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and <b>stop here</b> . The organization qualifies as a publicly supported organization  |    |  |
| 20 Private Foundation If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions   |    |  |



Part IV

**Supplemental Information.** Supplemental Information. Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

SCHEDULE C  
(Form 990 or 990-EZ)

Department of the Treasury  
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527  
▶ **Complete if the organization is described below.**  
▶ **Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.**

OMB No 1545-0047

2010

Open to Public Inspection

**If the organization answered “Yes,” to Form 990, Part IV, Line 3, or Form 990-EZ, Part V, line 46 (Political Campaign Activities), then**

- Section 501(c)(3) organizations Complete Parts I-A and B Do not complete Part I-C
- Section 501(c) (other than section 501(c)(3)) organizations Complete Parts I-A and C below Do not complete Part I-B
- Section 527 organizations Complete Part I-A only

**If the organization answered “Yes,” to Form 990, Part IV, Line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then**

- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)) Complete Part II-A Do not complete Part II-B
- Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)) Complete Part II-B Do not complete Part II-A

**If the organization answered “Yes,” to Form 990, Part IV, Line 5 (Proxy Tax) or Form 990-EZ, Part V, line 35a (Proxy Tax), then**

- Section 501(c)(4), (5), or (6) organizations Complete Part III

|  |  |
|--|--|
| Name of the organization<br>Herbert J Thomas Memorial Hospital Association | Employer identification number<br>55-0404900 |
|--|--|

**Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.**

|   |  |            |
|---|--|------------|
| 1 | Provide a description of the organization’s direct and indirect political campaign activities in Part IV |            |
| 2 | Political expenditures   | ▶ \$ _____ |
| 3 | Volunteer hours  | _____      |

**Part I-B Complete if the organization is exempt under section 501(c)(3).**

|    |   |  |
|----|---|--|
| 1  | Enter the amount of any excise tax incurred by the organization under section 4955      | ▶ \$ _____   |
| 2  | Enter the amount of any excise tax incurred by organization managers under section 4955 | ▶ \$ _____   |
| 3  | If the organization incurred a section 4955 tax, did it file Form 4720 for this year?   | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 4a | Was a correction made?  | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| b  | If “Yes,” describe in Part IV   |  |

**Part I-C Complete if the organization is exempt under section 501(c) except section 501(c)(3).**

|   |   |  |
|---|---|--|
| 1 | Enter the amount directly expended by the filing organization for section 527 exempt function activities  | ▶ \$ _____   |
| 2 | Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt funtion activities  | ▶ \$ _____   |
| 3 | Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b  | ▶ \$ _____   |
| 4 | Did the filing organization file <b>Form 1120-POL</b> for this year?  | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 5 | Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization’s funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV |  |

| (a) Name | (b) Address | (c) EIN | (d) Amount paid from filing organization's funds If none, enter -0- | (e) Amount of political contributions received and promptly and directly delivered to a separate political organization If none, enter -0- |
|----------|-------------|---------|---|--|
|          |             |         |   |  |
|          |             |         |   |  |
|          |             |         |   |  |
|          |             |         |   |  |
|          |             |         |   |  |
|          |             |         |   |  |
|          |             |         |   |  |
|          |             |         |   |  |

Part II-A

Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).

A

Check

☐

if the filing organization belongs to an affiliated group

B

Check

☐

if the filing organization checked box A and "limited control" provisions apply

| Limits on Lobbying Expenditures<br>(The term "expenditures" means amounts paid or incurred.)   |   | (a) Filing<br>Organization's<br>Totals                   | (b) Affiliated<br>Group<br>Totals  |                    |                              |   |   |   |   |  |  |                   |             |  |  |
|--|---|--|------------------------------------|--------------------|------------------------------|---|---|---|---|--|--|-------------------|-------------|--|--|
| 1a Total lobbying expenditures to influence public opinion (grass roots lobbying)  |   |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| b Total lobbying expenditures to influence a legislative body (direct lobbying)  |   |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| c Total lobbying expenditures (add lines 1a and 1b)  |   |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| d Other exempt purpose expenditures  |   |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| e Total exempt purpose expenditures (add lines 1c and 1d)  |   |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| f Lobbying nontaxable amount Enter the amount from the following table in both columns   |   |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| <table><thead><tr><th>If the amount on line 1e, column (a) or (b) is:</th><th>The lobbying nontaxable amount is:</th></tr></thead><tbody><tr><td>Not over \$500,000</td><td>20% of the amount on line 1e</td></tr><tr><td>Over \$500,000 but not over \$1,000,000</td><td>\$100,000 plus 15% of the excess over \$500,000</td></tr><tr><td>Over \$1,000,000 but not over \$1,500,000</td><td>\$175,000 plus 10% of the excess over \$1,000,000</td></tr><tr><td>Over \$1,500,000 but not over \$17,000,000</td><td>\$225,000 plus 5% of the excess over \$1,500,000</td></tr><tr><td>Over \$17,000,000</td><td>\$1,000,000</td></tr></tbody></table> |   | If the amount on line 1e, column (a) or (b) is:          | The lobbying nontaxable amount is: | Not over \$500,000 | 20% of the amount on line 1e | Over \$500,000 but not over \$1,000,000 | \$100,000 plus 15% of the excess over \$500,000 | Over \$1,000,000 but not over \$1,500,000 | \$175,000 plus 10% of the excess over \$1,000,000 | Over \$1,500,000 but not over \$17,000,000 | \$225,000 plus 5% of the excess over \$1,500,000 | Over \$17,000,000 | \$1,000,000 |  |  |
| If the amount on line 1e, column (a) or (b) is:  | The lobbying nontaxable amount is:                |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| Not over \$500,000   | 20% of the amount on line 1e                      |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| Over \$500,000 but not over \$1,000,000  | \$100,000 plus 15% of the excess over \$500,000   |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| Over \$1,000,000 but not over \$1,500,000  | \$175,000 plus 10% of the excess over \$1,000,000 |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| Over \$1,500,000 but not over \$17,000,000   | \$225,000 plus 5% of the excess over \$1,500,000  |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| Over \$17,000,000  | \$1,000,000                                       |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| g Grassroots nontaxable amount (enter 25% of line 1f)  |   |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| h Subtract line 1g from line 1a If zero or less, enter -0-   |   |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| i Subtract line 1f from line 1c If zero or less, enter -0-   |   |  |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |
| j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year?  |   | <input type="checkbox"/> Yes <input type="checkbox"/> No |                                    |                    |                              |   |   |   |   |  |  |                   |             |  |  |

4-Year Averaging Period Under Section 501(h)  
(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

| Lobbying Expenditures During 4-Year Averaging Period         |          |          |          |          |           |
|--|----------|----------|----------|----------|-----------|
| Calendar year (or fiscal year beginning in)                  | (a) 2007 | (b) 2008 | (c) 2009 | (d) 2010 | (e) Total |
| 2a Lobbying non-taxable amount                               |          |          |          |          |           |
| b Lobbying ceiling amount<br>(150% of line 2a, column(e))    |          |          |          |          |           |
| c Total lobbying expenditures                                |          |          |          |          |           |
| d Grassroots non-taxable amount                              |          |          |          |          |           |
| e Grassroots ceiling amount<br>(150% of line 2d, column (e)) |          |          |          |          |           |
| f Grassroots lobbying expenditures                           |          |          |          |          |           |

Part II-B

Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).

|    |  | (a) |    | (b)    |
|----|--|-----|----|--------|
|    |  | Yes | No | Amount |
| 1  | During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of |     |    |        |
| a  | Volunteers?  |     | No |        |
| b  | Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?   |     | No |        |
| c  | Media advertisements?  |     | No |        |
| d  | Mailings to members, legislators, or the public?   |     | No |        |
| e  | Publications, or published or broadcast statements?  |     | No |        |
| f  | Grants to other organizations for lobbying purposes?   | Yes |    | 41,946 |
| g  | Direct contact with legislators, their staffs, government officials, or a legislative body?  |     | No |        |
| h  | Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?  |     | No |        |
| i  | Other activities? If "Yes," describe in Part IV  |     | No |        |
| j  | Total lines 1c through 1i  |     |    | 41,946 |
| 2a | Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?  |     | No |        |
| b  | If "Yes," enter the amount of any tax incurred under section 4912  |     |    |        |
| c  | If "Yes," enter the amount of any tax incurred by organization managers under section 4912   |     |    |        |
| d  | If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?   |     |    |        |

Part III-A

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).

|   |  |   | Yes | No |
|---|--|---|-----|----|
| 1 | Were substantially all (90% or more) dues received nondeductible by members?                     | 1 |     |    |
| 2 | Did the organization make only in-house lobbying expenditures of \$2,000 or less?                | 2 |     |    |
| 3 | Did the organization agree to carryover lobbying and political expenditures from the prior year? | 3 |     |    |

Part III-B

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) if BOTH Part III-A, lines 1 and 2 are answered "No" OR if Part III-A, line 3 is answered "Yes".

|   |  |    |  |
|---|--|----|--|
| 1 | Dues, assessments and similar amounts from members   | 1  |  |
| 2 | Section 162(e) non-deductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid).  | 2a |  |
| a | Current year   |    |  |
| b | Carryover from last year   |    |  |
| c | Total  |    |  |
| 3 | Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues  | 3  |  |
| 4 | If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year? | 4  |  |
| 5 | Taxable amount of lobbying and political expenditures (see instructions)   | 5  |  |

Part IV

Supplemental Information

Complete this part to provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, and Part II-B, line 1i. Also, complete this part for any additional information.

| Identifier | Return Reference | Explanation |
|------------|------------------|-------------|
|------------|------------------|-------------|

SCHEDULE D

(Form 990)

Department of the Treasury  
Internal Revenue Service

Supplemental Financial Statements

▶ **Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11, or 12.**  
▶ **Attach to Form 990. ▶ See separate instructions.**

OMB No 1545-0047

2010

Open to Public Inspection

**Name of the organization**  
Herbert J Thomas Memorial Hospital Association

**Employer identification number**  
55-0404900

Part I

Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

|   |   |                              |
|---|---|------------------------------|
|   | (a) Donor advised funds   | (b) Funds and other accounts |
| 1 | Total number at end of year   |                              |
| 2 | Aggregate contributions to (during year)  |                              |
| 3 | Aggregate grants from (during year)   |                              |
| 4 | Aggregate value at end of year  |                              |
| 5 | Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? <div><input type="checkbox"/> Yes<input type="checkbox"/> No</div>   |                              |
| 6 | Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit <div><input type="checkbox"/> Yes<input type="checkbox"/> No</div> |                              |

Part II

Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1

Purpose(s) of conservation easements held by the organization (check all that apply)

☐ Preservation of land for public use (e g , recreation or pleasure)

☐ Preservation of an historically importantly land area

☐ Protection of natural habitat

☐ Preservation of a certified historic structure

☐ Preservation of open space

2

Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

|    |                             |
|----|-----------------------------|
|    | Held at the End of the Year |
| 2a |                             |
| 2b |                             |
| 2c |                             |
| 2d |                             |

3

Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year ▶ \_\_\_\_\_

4

Number of states where property subject to conservation easement is located ▶ \_\_\_\_\_

5

Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds?

☐ Yes☐ No

6

Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year ▶ \_\_\_\_\_

7

Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ▶ \$ \_\_\_\_\_

8

Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)?

☐ Yes☐ No

9

In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III

Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a

If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b

If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1▶ \$ \_\_\_\_\_

(ii) Assets included in Form 990, Part X▶ \$ \_\_\_\_\_

2

If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items

a

Revenues included in Form 990, Part VIII, line 1▶ \$ \_\_\_\_\_

b

Assets included in Form 990, Part X▶ \$ \_\_\_\_\_

**Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets** *(continued)*

3

Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

a

☐ Public exhibition

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other

4

Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5

During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection?

☐ Yes

☐ No

**Part IV Escrow and Custodial Arrangements.** Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a

Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV and complete the following table

|    |        |
|----|--------|
|    | Amount |
| 1c |        |
| 1d |        |
| 1e |        |
| 1f |        |

2a

Did the organization include an amount on Form 990, Part X, line 21?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV

**Part V Endowment Funds.** Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

|    |  |               |                   |                     |                    |
|----|--|---------------|-------------------|---------------------|--------------------|
|    | (a)Current Year  | (b)Prior Year | (c)Two Years Back | (d)Three Years Back | (e)Four Years Back |
| 1a | Beginning of year balance . . . . .                      |               |                   |                     |                    |
| b  | Contributions . . . . .                                  |               |                   |                     |                    |
| c  | Investment earnings or losses . . . . .                  |               |                   |                     |                    |
| d  | Grants or scholarships . . . . .                         |               |                   |                     |                    |
| e  | Other expenditures for facilities and programs . . . . . |               |                   |                     |                    |
| f  | Administrative expenses . . . . .                        |               |                   |                     |                    |
| g  | End of year balance . . . . .                            |               |                   |                     |                    |

2

Provide the estimated percentage of the year end balance held as

a

Board designated or quasi-endowment ▶

b

Permanent endowment ▶

c

Term endowment ▶

3a

Are there endowment funds not in the possession of the organization that are held and administered for the organization by

(i)

unrelated organizations . . . . .

3a(i)

☐ Yes

☐ No

(ii)

related organizations . . . . .

3a(ii)

☐ Yes

☐ No

b

If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?

3b

☐ Yes

☐ No

4

Describe in Part XIV the intended uses of the organization's endowment funds

**Part VI Investments—Land, Buildings, and Equipment.** See Form 990, Part X, line 10.

| Description of investment  | (a) Cost or other basis (investment) | (b)Cost or other basis (other) | (c) Accumulated depreciation | (d) Book value |
|--|--------------------------------------|--------------------------------|------------------------------|----------------|
| 1a Land . . . . .  |                                      | 12,423,235                     |                              | 12,423,235     |
| b Buildings . . . . .  |                                      | 148,687,614                    | 55,158,384                   | 93,529,230     |
| c Leasehold improvements . . . . .   |                                      |                                |                              |                |
| d Equipment . . . . .  |                                      | 112,570,509                    | 87,529,065                   | 25,041,444     |
| e Other . . . . .  |                                      | 11,391,876                     | 3,133,358                    | 8,258,518      |
| Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) ▶ |                                      |                                |                              | 139,252,427    |



Part XI

Reconciliation of Change in Net Assets from Form 990 to Financial Statements

|    |   |    |             |
|----|---|----|-------------|
| 1  | Total revenue (Form 990, Part VIII, column (A), line 12)                        | 1  | 159,345,800 |
| 2  | Total expenses (Form 990, Part IX, column (A), line 25)                         | 2  | 167,488,397 |
| 3  | Excess or (deficit) for the year Subtract line 2 from line 1                    | 3  | -8,142,597  |
| 4  | Net unrealized gains (losses) on investments                                    | 4  | -27,609     |
| 5  | Donated services and use of facilities  | 5  |             |
| 6  | Investment expenses   | 6  |             |
| 7  | Prior period adjustments  | 7  |             |
| 8  | Other (Describe in Part XIV)  | 8  | 3,837,261   |
| 9  | Total adjustments (net) Add lines 4 - 8   | 9  | 3,809,652   |
| 10 | Excess or (deficit) for the year per financial statements Combine lines 3 and 9 | 10 | -4,332,945  |

Part XII

Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

|   |  |    |             |
|---|--|----|-------------|
| 1 | Total revenue, gains, and other support per audited financial statements . . . . .         | 1  | 158,680,561 |
| 2 | Amounts included on line 1 but not on Form 990, Part VIII, line 12                         |    |             |
| a | Net unrealized gains on investments . . . . .  | 2a |             |
| b | Donated services and use of facilities . . . . .   | 2b |             |
| c | Recoveries of prior year grants . . . . .  | 2c |             |
| d | Other (Describe in Part XIV) . . . . .   | 2d |             |
| e | Add lines 2a through 2d . . . . .  | 2e | 0           |
| 3 | Subtract line 2e from line 1 . . . . .   | 3  | 158,680,561 |
| 4 | Amounts included on Form 990, Part VIII, line 12, but not on line 1                        |    |             |
| a | Investment expenses not included on Form 990, Part VIII, line 7b . . . . .                 | 4a |             |
| b | Other (Describe in Part XIV) . . . . .   | 4b | 665,239     |
| c | Add lines 4a and 4b . . . . .  | 4c | 665,239     |
| 5 | Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12 ) . . . . . | 5  | 159,345,800 |

Part XIII

Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

|   |   |    |             |
|---|---|----|-------------|
| 1 | Total expenses and losses per audited financial statements . . . . .                        | 1  | 166,934,798 |
| 2 | Amounts included on line 1 but not on Form 990, Part IX, line 25                            |    |             |
| a | Donated services and use of facilities . . . . .  | 2a |             |
| b | Prior year adjustments . . . . .  | 2b |             |
| c | Other losses . . . . .  | 2c |             |
| d | Other (Describe in Part XIV) . . . . .  | 2d | 10,216      |
| e | Add lines 2a through 2d . . . . .   | 2e | 10,216      |
| 3 | Subtract line 2e from line 1 . . . . .  | 3  | 166,924,582 |
| 4 | Amounts included on Form 990, Part IX, line 25, but not on line 1:                          |    |             |
| a | Investment expenses not included on Form 990, Part VIII, line 7b . . . . .                  | 4a |             |
| b | Other (Describe in Part XIV) . . . . .  | 4b | 563,815     |
| c | Add lines 4a and 4b . . . . .   | 4c | 563,815     |
| 5 | Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18 ) . . . . . | 5  | 167,488,397 |

Part XIV

Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information.

| Identifier                             | Return Reference | Explanation  |
|--|------------------|--|
| Part XI, Line 8 - Other Adjustments    |                  | Income from K-1 - Premier Purchasing Partners LP -658,691<br>Defined benefit pension plan adjustment 3,948,901<br>Distributions from Premier Purchasing Partners LP 557,267<br>Audit adjustment for prior period -10,216 |
| Part XII, Line 4b - Other Adjustments  |                  | Income from K-1 Premier Purchasing Partners LP 658,691<br>Expense offset against income in the financial statements 6,548  |
| Part XIII, Line 2d - Other Adjustments |                  | Audit adjustment for prior period 10,216   |
| Part XIII, Line 4b - Other Adjustments |                  | Distributions from Premier Purchasing Partners LP 557,267<br>Expense offset against income in the financial statements 6,548   |



SCHEDULE H  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Hospitals

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, question 20.**  
▶ **Attach to Form 990.** ▶ **See separate instructions.**

OMB No 1545-0047

2010

Open to Public Inspection

**Name of the organization**  
Herbert J Thomas Memorial Hospital Association

**Employer identification number**  
55-0404900

Part I

Financial Assistance and Certain Other Community Benefits at Cost

|    |  |     |    |
|----|--|-----|----|
|    |  | Yes | No |
| 1a | Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a . . . . .  | Yes |    |
| 1b | If "Yes," is it a written policy? . . . . .  | Yes |    |
| 2  | If the organization has multiple hospitals, indicate which of the following best describes application of the financial assistance policy to its various hospital facilities during the tax year<br><br><input checked="" type="checkbox"/> Applied uniformly to all hospitals<br><input type="checkbox"/> Applied uniformly to most hospitals<br><input type="checkbox"/> Generally tailored to individual hospitals  |     |    |
| 3  | Answer the following based on the the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year<br><br><b>a</b> Does the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing <i>free</i> care to low income individuals? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care<br><br><input type="checkbox"/> 100% <input type="checkbox"/> 150% <input checked="" type="checkbox"/> 200% <input type="checkbox"/> Other _____ %<br><br><b>b</b> Does the organization use FPG to determine eligibility for providing <i>discounted</i> care to low income individuals? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care . . . . .<br><br><input type="checkbox"/> 200% <input checked="" type="checkbox"/> 250% <input type="checkbox"/> 300% <input type="checkbox"/> 350% <input type="checkbox"/> 400% <input type="checkbox"/> Other _____ %<br><br><b>c</b> If the organization does not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care<br><br><b>4</b> Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"? . . . . . | Yes |    |
| 5a | Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year? . . . . .  | Yes |    |
| 5b | If "Yes," did the organization's financial assistance expenses exceed the budgeted amount? . . . . .   |     | No |
| 5c | If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care? . . . . .   |     |    |
| 6a | Does the organization prepare a community benefit report during the tax year? . . . . .  |     | No |
| 6b | If "Yes," did the organization make it available to the public? . . . . .  |     |    |
|    | Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H   |     |    |

7

Financial Assistance and Certain Other Community Benefits at Cost

| Financial Assistance and Means-Tested Government Programs                                   | (a) Number of activities or programs (optional) | (b) Persons served (optional) | (c) Total community benefit expense | (d) Direct offsetting revenue | (e) Net community benefit expense | (f) Percent of total expense |
|---|---|-------------------------------|-------------------------------------|-------------------------------|-----------------------------------|------------------------------|
| a Financial Assistance at cost (from Worksheets 1 and 2)                                    |   |                               | 2,342,119                           | 0                             | 2,342,119                         | 1 530 %                      |
| b Unreimbursed Medicaid (from Worksheet 3, column a)  |   |                               | 21,625,115                          | 10,876,974                    | 10,748,141                        | 7 010 %                      |
| c Unreimbursed costs—other means-tested government programs (from Worksheet 3, column b)    |   |                               |                                     |                               |                                   |                              |
| d Total Financial Assistance and Means-Tested Government Programs . . . . .                 |   |                               | 23,967,234                          | 10,876,974                    | 13,090,260                        | 8 540 %                      |
| Other Benefits  |   |                               |                                     |                               |                                   |                              |
| e Community health improvement services and community benefit operations (from Worksheet 4) |   |                               | 102,000                             |                               | 102,000                           | 0 070 %                      |
| f Health professions education (from Worksheet 5)   |   |                               |                                     |                               |                                   |                              |
| g Subsidized health services (from Worksheet 6)   |   |                               |                                     |                               |                                   |                              |
| h Research (from Worksheet 7)   |   |                               |                                     |                               |                                   |                              |
| i Cash and in-kind contributions to community groups (from Worksheet 8)                     |   |                               | 78,825                              |                               | 78,825                            | 0 050 %                      |
| j Total Other Benefits . . . . .  |   |                               | 180,825                             |                               | 180,825                           | 0 120 %                      |
| k Total. Add lines 7d and 7j . . . . .  |   |                               | 24,148,059                          | 10,876,974                    | 13,271,085                        | 8 660 %                      |

Part II

Community Building Activities during the tax year, and describe in Part VI how its community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

|    | (a) Number of activities or programs (optional)           | (b) Persons served (optional) | (c) Total community building expense | (d) Direct offsetting revenue | (e) Net community building expense | (f) Percent of total expense |
|----|---|-------------------------------|--------------------------------------|-------------------------------|------------------------------------|------------------------------|
| 1  | Physical improvements and housing                         |                               |                                      |                               |                                    |                              |
| 2  | Economic development                                      |                               |                                      |                               |                                    |                              |
| 3  | Community support   |                               |                                      |                               |                                    |                              |
| 4  | Environmental improvements                                |                               |                                      |                               |                                    |                              |
| 5  | Leadership development and training for community members |                               |                                      |                               |                                    |                              |
| 6  | Coalition building  |                               |                                      |                               |                                    |                              |
| 7  | Community health improvement advocacy                     |                               |                                      |                               |                                    |                              |
| 8  | Workforce development                                     |                               |                                      |                               |                                    |                              |
| 9  | Other   |                               |                                      |                               |                                    |                              |
| 10 | Total   |                               |                                      |                               |                                    |                              |

Part III

Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

|   |  |     |           |
|---|--|-----|-----------|
|   |  | Yes | No        |
| 1 | Did the organization report bad debt expense in accordance with Healthcare Financial Management Association Statement No. 15? . . . . .  | 1   | No        |
| 2 | Enter the amount of the organization's bad debt expense (at cost) . . . . .  | 2   | 5,601,474 |
| 3 | Enter the estimated amount of the organization's bad debt expense (at cost) attributable to patients eligible under the organization's financial assistance policy . . . . .   | 3   |           |
| 4 | Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit. |     |           |

Section B. Medicare

|   |   |   |            |
|---|---|---|------------|
| 5 | Enter total revenue received from Medicare (including DSH and IME) . . . . .  | 5 | 35,466,806 |
| 6 | Enter Medicare allowable costs of care relating to payments on line 5 . . . . .   | 6 | 35,757,700 |
| 7 | Subtract line 6 from line 5. This is the surplus or (shortfall) . . . . .   | 7 | -290,894   |
| 8 | Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used:<br><input type="checkbox"/> Cost accounting system <input type="checkbox"/> Cost to charge ratio <input checked="" type="checkbox"/> Other |   |            |

Section C. Collection Practices

|    |   |    |     |
|----|---|----|-----|
| 9a | Does the organization have a written debt collection policy? . . . . .  | 9a | Yes |
| b  | If "Yes," does the organization's collection policy contain provisions on the collection practices to be followed for patients who are known to qualify for charity care or financial assistance? Describe in Part VI . . . . . | 9b | No  |

Part IV

Management Companies and Joint Ventures

| (a) Name of entity | (b) Description of primary activity of entity | (c) Organization's profit % or stock ownership % | (d) Officers, directors, trustees, or key employees' profit % or stock ownership% | (e) Physicians' profit % or stock ownership % |
|--------------------|---|--|---|---|
| 1                  |   |  |   |   |
| 2                  |   |  |   |   |
| 3                  |   |  |   |   |
| 4                  |   |  |   |   |
| 5                  |   |  |   |   |
| 6                  |   |  |   |   |
| 7                  |   |  |   |   |
| 8                  |   |  |   |   |
| 9                  |   |  |   |   |
| 10                 |   |  |   |   |
| 11                 |   |  |   |   |
| 12                 |   |  |   |   |
| 13                 |   |  |   |   |

## Section A. Hospital Facilities

How many hospital facilities did the organization operate during the tax year? 1

**Schedule H (Form 990) 2010**

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

(list in order of size, measured by total revenue per facility, from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? \_\_\_\_\_

| Name and address | Type of Facility (Describe) |
|------------------|-----------------------------|
| 1                |                             |
| 1                |                             |
| 2                |                             |
| 3                |                             |
| 4                |                             |
| 5                |                             |
| 6                |                             |
| 7                |                             |
| 8                |                             |
| 9                |                             |
| 10               |                             |

Part VI

Supplemental Information

Complete this part to provide the following information

- 1
- Required descriptions.** Provide the description required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2
- Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc )
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

| Identifier | ReturnReference | Explanation  |
|------------|-----------------|--|
|            |                 | Part I, Line 7 The cost of charity care and unreimbursed Medicaid was estimated using a cost to charge ratio derived from Worksheet 2 of the Schedule H instructions The cost of community health improvement services and community benefit operations, as well as the cost of cash and in-kind contributions to community groups was obtained from the hospital's accounting records |

| Identifier | ReturnReference | Explanation  |
|------------|-----------------|--|
|            |                 | Part I, Line 7, Column (f) The Bad Debt expense included on Form 990, Part IX, Line 25, Column (A ), but subtracted for purposes of calculating the percentage in this column is \$ 14138705 |

| Identifier | ReturnReference | Explanation  |
|------------|-----------------|--|
|            |                 | Part III, Line 4 Bad debt expense is described in the consolidated financial statements as follows Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts The allowance is based upon a review of the outstanding balances aged by financial class Management uses collection percentages based upon historical collection experience to determine collectibility Management also reviews troubled, aged accounts to determine collection potential Patient accounts receivable are written off when deemed uncollectible Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received The cost of bad debts reported in Schedule H was estimated using a cost to charge ratio derived from Worksheet 2 of the Schedule H instructions |

| Identifier | ReturnReference | Explanation  |
|------------|-----------------|--|
|            |                 | Part III, Line 8 Medicare costs were obtained from the Hospital's Medicare cost report |



| Identifier | ReturnReference | Explanation  |
|------------|-----------------|--|
|            |                 | Part III, Line 9b The organization's collection policies do not apply to patients that are known to qualify for financial assistance. Additionally, the organization has a separate Patient Assistance policy, patients who qualify for assistance under the policy do not receive a bill. |

| Identifier | ReturnReference | Explanation  |
|------------|-----------------|--|
|            |                 | Part VI, Line 2 The hospital is a member of the Kanawha Coalition for Community Health Improvement The Coalition conducts a survey every three years to assess health care needs of the community Results of the survey are presented in a meeting of community leaders and other interested persons, and are conveyed to the general public by local media Results of the most recent survey were released in September, 2011 |

| Identifier | ReturnReference | Explanation   |
|------------|-----------------|---|
|            |                 | Part VI, Line 3 The organization informs and educates patients about their eligibility for assistance by (1) providing a copy of the policy, or a summary thereof, and financial assistance contact information to patients as part of the intake process, (2) including the policy, or a summary thereof, along with financial assistance contact information, in patient bills, and (3) discussing with the patient the availability of various government benefits, such as Medicaid or state programs, and assisting the patient with qualification for such programs, where applicable |

| Identifier | ReturnReference | Explanation   |
|------------|-----------------|---|
|            |                 | Part VI, Line 4 The organization's geographic service area includes approximately 476,000 persons in a 12 county area of south-central West Virginia Heart disease, cancer and pulmonary disease are the leading causes of death in the service area Patients in the service area are typical of West Virginia as a whole The population served is 48% male, 52% female Approximately 20% of residents in the area have no healthcare insurance coverage and no family doctor or other healthcare provider Except for the area within the Charleston, WV city limits, all of the counties in the organization's geographic service area are federally-designated Medically Underserved and Health Manpower Shortage Areas |

| Identifier | ReturnReference | Explanation   |
|------------|-----------------|---|
|            |                 | Part VI, Line 6 All members of the hospital's board reside in the local community The hospital extends medical staff privileges to all qualified physicians in the community who meet specific credentialing criteria The hospital's 24 hour emergency room is available to all persons, regardless of ability to pay The hospital prepares its budget to ensure adequate funding for capital improvements that are made on an on-going basis During the year, the hospital received over \$1,176,000 in contributions These contributions enabled the hospital to fund its capital improvements and to provide financial assistance to individuals unable to pay for some or all of their care |

| Identifier | ReturnReference | Explanation  |
|------------|-----------------|--|
|            |                 | Part VI, Line 7 The hospital, along with St Francis Hospital, is part of Thomas Health System, Inc The health system was formed to forge a partnership based on the strength of the two established hospitals Bringing the two hospitals under the umbrella of the Thomas Health System allows them to provide a full range of innovative and cost-effective health care services to the Kanawha Valley and surrounding areas Economies of scale have allowed for cost reductions in numerous areas, while providing advanced technology to a larger community, with access to the highest quality of physicians, nurses and support staff in our service area |

Part I General Information on Grants and Assistance

- 1

Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance?

Yes

No

2

Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States
- Part II Grants and Other Assistance to Governments and Organizations in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 21 for any recipient that received more than \$5,000. Check this box if no one recipient received more than \$5,000. Part II can be duplicated if additional space is needed. ▶
- | 1 (a) Name and address of organization or government            | (b) EIN    | (c) IRC Code section if applicable | (d) Amount of cash grant | (e) Amount of non-cash assistance | (f) Method of valuation (book, FMV, appraisal, other) | (g) Description of non-cash assistance | (h) Purpose of grant or assistance   |
|---|------------|------------------------------------|--------------------------|-----------------------------------|---|--|--|
| (1) American Heart Association162 Court St Charleston, WV 25301 | 13-5613797 | 501(c)(3)                          | 5,000                    |                                   |   |  | Funding for medical research   |
| (2) WV Health Right1520 Washington St East Charleston, WV 25311 | 31-1066881 | 501(c)(3)                          | 30,000                   |                                   |   |  | Support for a free clinic that provides medical care and drugs to the uninsuredTo assist a free clinic located in Charleston, WV that supplies free drugs to the uninsuredTo support a free clinic located in Charleston, WV that supplies free drugs to the uninsured |
| (3) Charleston Area Alliance1116 Smith St Charleston, WV 25301  | 55-6024192 | 501(c)(4)                          | 6,400                    |                                   |   |  | Support for economic development program and sponsorship of 2011 annual celebration  |
|   |            |                                    |                          |                                   |   |  |  |
|   |            |                                    |                          |                                   |   |  |  |
|   |            |                                    |                          |                                   |   |  |  |
|   |            |                                    |                          |                                   |   |  |  |
|   |            |                                    |                          |                                   |   |  |  |
|   |            |                                    |                          |                                   |   |  |  |
|   |            |                                    |                          |                                   |   |  |  |
|   |            |                                    |                          |                                   |   |  |  |
|   |            |                                    |                          |                                   |   |  |  |
|   |            |                                    |                          |                                   |   |  |  |
|   |            |                                    |                          |                                   |   |  |  |
|   |            |                                    |                          |                                   |   |  |  |
|   |            |                                    |                          |                                   |   |  |  |
- 2

Enter total number of section 501(c)(3) and government organizations

▶

3

Enter total number of other organizations

▶
- For Privacy Act and Paperwork Reduction Act Notice, see the Instructions for Form 990.

Cat No 50055P

Schedule I (Form 990) 2010

**Part III**

**Grants and Other Assistance to Individuals in the United States.** Complete if the organization answered "Yes" to Form 990, Part IV, line 22.  
Use Schedule I-1 (Form 990) if additional space is needed.

| (a)Type of grant or assistance | (b)Number of recipients | (c)Amount of cash grant | (d)Amount of non-cash assistance | (e)Method of valuation (book, FMV, appraisal, other) | (f)Description of non-cash assistance |
|--------------------------------|-------------------------|-------------------------|----------------------------------|--|---------------------------------------|
|                                |                         |                         |                                  |  |                                       |
|                                |                         |                         |                                  |  |                                       |
|                                |                         |                         |                                  |  |                                       |
|                                |                         |                         |                                  |  |                                       |
|                                |                         |                         |                                  |  |                                       |
|                                |                         |                         |                                  |  |                                       |
|                                |                         |                         |                                  |  |                                       |

**Part IV**

**Supplemental Information.** Complete this part to provide the information required in Part I, line 2, and any other additional information.

| Identifier | Return Reference | Explanation |
|------------|------------------|-------------|
|------------|------------------|-------------|



Schedule J  
(Form 990)

Compensation Information

OMB No 1545-0047

2010

Open to Public Inspection

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.

▶ Attach to Form 990. ▶ See separate instructions.

|  |  |
|--|--|
| Name of the organization<br>Herbert J Thomas Memorial Hospital Association | Employer identification number<br>55-0404900 |
|--|--|

Part I

Questions Regarding Compensation

|    |   |     |     |
|----|---|-----|-----|
|    |   | Yes | No  |
| 1a | Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items   |     |     |
|    | <div><input type="checkbox"/> First-class or charter travel</div> <div><input type="checkbox"/> Travel for companions</div> <div><input type="checkbox"/> Tax idemnification and gross-up payments</div> <div><input type="checkbox"/> Discretionary spending account</div> <div><input type="checkbox"/> Housing allowance or residence for personal use</div> <div><input type="checkbox"/> Payments for business use of personal residence</div> <div><input type="checkbox"/> Health or social club dues or initiation fees</div> <div><input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)</div> |     |     |
| b  | If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all the expenses described above? If "No," complete Part III to explain   | 1b  |     |
| 2  | Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?  | 2   |     |
| 3  | Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply  |     |     |
|    | <div><input checked="" type="checkbox"/> Compensation committee</div> <div><input checked="" type="checkbox"/> Independent compensation consultant</div> <div><input type="checkbox"/> Form 990 of other organizations</div> <div><input type="checkbox"/> Written employment contract</div> <div><input checked="" type="checkbox"/> Compensation survey or study</div> <div><input checked="" type="checkbox"/> Approval by the board or compensation committee</div>   |     |     |
| 4  | During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization  |     |     |
| a  | Receive a severance payment or change-of-control payment from the organization or a related organization?   | 4a  | No  |
| b  | Participate in, or receive payment from, a supplemental nonqualified retirement plan?   | 4b  | Yes |
| c  | Participate in, or receive payment from, an equity-based compensation arrangement?  | 4c  | No  |
|    | If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III  |     |     |
|    | Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.  |     |     |
| 5  | For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of   |     |     |
| a  | The organization?   | 5a  | No  |
| b  | Any related organization?   | 5b  | No  |
|    | If "Yes," to line 5a or 5b, describe in Part III  |     |     |
| 6  | For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of   |     |     |
| a  | The organization?   | 6a  | No  |
| b  | Any related organization?   | 6b  | No  |
|    | If "Yes," to line 6a or 6b, describe in Part III  |     |     |
| 7  | For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III  | 7   | No  |
| 8  | Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III  | 8   | No  |
| 9  | If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?  | 9   |     |

**Part II** **Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees.** Use duplicate copies if additional space is needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

**Note.** The sum of columns (B)(i)-(iii) must equal the applicable column (D) or column (E) amounts on Form 990, Part VII, line 1a

| (A) Name                |      | (B) Breakdown of W-2 and/or 1099-MISC compensation |                                     |                                     | (C) Retirement and other deferred compensation | (D) Nontaxable benefits | (E) Total of columns (B)(i)-(D) | (F) Compensation reported in prior Form 990 or Form 990-EZ |
|-------------------------|------|--|-------------------------------------|-------------------------------------|--|-------------------------|---------------------------------|--|
|                         |      | (i) Base compensation                              | (ii) Bonus & incentive compensation | (iii) Other reportable compensation |  |                         |                                 |  |
| (1) Daniel J Lauffer    | (i)  | 0  | 0                                   | 0                                   | 0  | 0                       | 0                               | 0  |
|                         | (ii) | 319,118  | 64,500                              | 9,300                               | 37,223   | 27,602                  | 457,743                         | 0  |
| (2) Stephen P Dexter    | (i)  | 503,600  | 87,000                              | 28,500                              | 9,075  | 14,585                  | 642,760                         | 0  |
|                         | (ii) | 0  | 0                                   | 0                                   | 0  | 0                       | 0                               | 0  |
| (3) Charles O Covert    | (i)  | 241,966  | 31,736                              | 8,127                               | 6,533  | 17,525                  | 305,887                         | 0  |
|                         | (ii) | 0  | 0                                   | 0                                   | 0  | 0                       | 0                               | 0  |
| (4) Robert J Gray       | (i)  | 222,961  | 27,753                              | 7,740                               | 6,305  | 17,525                  | 282,284                         | 0  |
|                         | (ii) | 0  | 0                                   | 0                                   | 0  | 0                       | 0                               | 0  |
| (5) Cynthia W Barnette  | (i)  | 219,616  | 30,900                              | 8,052                               | 6,285  | 17,525                  | 282,378                         | 0  |
|                         | (ii) | 0  | 0                                   | 0                                   | 0  | 0                       | 0                               | 0  |
| (6) Tarek Anderson      | (i)  | 288,506  | 0                                   | 0                                   | 3,675  | 15,934                  | 308,115                         | 0  |
|                         | (ii) | 0  | 0                                   | 0                                   | 0  | 0                       | 0                               | 0  |
| (7) Magdaleno Nucum     | (i)  | 160,388  | 0                                   | 0                                   | 0  | 15,451                  | 175,839                         | 0  |
|                         | (ii) | 0  | 0                                   | 0                                   | 0  | 0                       | 0                               | 0  |
| (8) William Priddy      | (i)  | 157,877  | 0                                   | 0                                   | 2,453  | 17,184                  | 177,514                         | 0  |
|                         | (ii) | 0  | 0                                   | 0                                   | 0  | 0                       | 0                               | 0  |
| (9) Mary Beth Smith     | (i)  | 153,708  | 0                                   | 0                                   | 2,347  | 2,453                   | 158,508                         | 0  |
|                         | (ii) | 0  | 0                                   | 0                                   | 0  | 0                       | 0                               | 0  |
| (10) Carmelita Bautista | (i)  | 149,746  | 0                                   | 0                                   | 4,152  | 15,430                  | 169,328                         | 0  |
|                         | (ii) | 0  | 0                                   | 0                                   | 0  | 0                       | 0                               | 0  |
| ( 11 )                  |      |  |                                     |                                     |  |                         |                                 |  |
| ( 12 )                  |      |  |                                     |                                     |  |                         |                                 |  |
| ( 13 )                  |      |  |                                     |                                     |  |                         |                                 |  |
| ( 14 )                  |      |  |                                     |                                     |  |                         |                                 |  |
| ( 15 )                  |      |  |                                     |                                     |  |                         |                                 |  |
| ( 16 )                  |      |  |                                     |                                     |  |                         |                                 |  |

Part IIISupplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

| Identifier | Return Reference | Explanation  |
|------------|------------------|--|
|            | Part I, Line 4b  | Line 4b - Deferrals under 457(b) plan: Stephen P. Dexter \$16,500, Charles O. Covert \$16,500, Robert J. Gray \$16,500, Cynthia W. Barnett \$16,500. |

Schedule K  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Supplemental Information on Tax Exempt Bonds

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Schedule O (Form 990).  
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2010

Open to Public  
Inspection

Name of the organization  
Herbert J Thomas Memorial Hospital Association

Employer identification number  
55-0404900

Part I Bond Issues

| (a) Issuer Name                            | (b) Issuer EIN | (c) CUSIP # | (d) Date Issued | (e) Issue Price | (f) Description of Purpose                   | (g) Defeased |    | (h) On Behalf of Issuer |    | (i) Pool financing |    |
|--|----------------|-------------|-----------------|-----------------|--|--------------|----|-------------------------|----|--------------------|----|
|  |                |             |                 |                 |  | Yes          | No | Yes                     | No | Yes                | No |
| A West Virginia Hospital Finance Authority | 62-1256910     | 956622XRO   | 06-30-2008      | 94,030,170      | Capital expenditures and equipment purchases |              | X  |                         | X  |                    | X  |
|  |                |             |                 |                 |  |              |    |                         |    |                    |    |
|  |                |             |                 |                 |  |              |    |                         |    |                    |    |
|  |                |             |                 |                 |  |              |    |                         |    |                    |    |

Part II Proceeds

|    |  | A          |    | B   |    | C   |    | D   |    |
|----|--|------------|----|-----|----|-----|----|-----|----|
| 1  | Amount of bonds retired  |            |    |     |    |     |    |     |    |
| 2  | Amount of bonds legally defeased   |            |    |     |    |     |    |     |    |
| 3  | Total proceeds of issue  | 92,695,993 |    |     |    |     |    |     |    |
| 4  | Gross proceeds in reserve funds  | 7,223,714  |    |     |    |     |    |     |    |
| 5  | Capitalized interest from proceeds   | 10,534,952 |    |     |    |     |    |     |    |
| 6  | Proceeds in refunding escrow   |            |    |     |    |     |    |     |    |
| 7  | Issuance costs from proceeds   | 1,489,249  |    |     |    |     |    |     |    |
| 8  | Credit enhancement from proceeds   |            |    |     |    |     |    |     |    |
| 9  | Working capital expenditures from proceeds   |            |    |     |    |     |    |     |    |
| 10 | Capital expenditures from proceeds   | 73,448,078 |    |     |    |     |    |     |    |
| 11 | Other spent proceeds   |            |    |     |    |     |    |     |    |
| 12 | Other unspent proceeds   |            |    |     |    |     |    |     |    |
| 13 | Year of substantial completion   | 2010       |    |     |    |     |    |     |    |
|    |  | Yes        | No | Yes | No | Yes | No | Yes | No |
| 14 | Were the bonds issued as part of a current refunding issue?  | X          |    |     |    |     |    |     |    |
| 15 | Were the bonds issued as part of an advance refunding issue?   |            | X  |     |    |     |    |     |    |
| 16 | Has the final allocation of proceeds been made?  | X          |    |     |    |     |    |     |    |
| 17 | Does the organization maintain adequate books and records to support the final allocation of proceeds? | X          |    |     |    |     |    |     |    |

Part III Private Business Use

|   |  | A   |    | B   |    | C   |    | D   |    |
|---|--|-----|----|-----|----|-----|----|-----|----|
|   |  | Yes | No | Yes | No | Yes | No | Yes | No |
| 1 | Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds? |     | X  |     |    |     |    |     |    |
| 2 | Are there any lease arrangements that may result in private business use of bond-financed property?                        | X   |    |     |    |     |    |     |    |

Part IIIPrivate Business Use (Continued)

|    |  | A       |    | B   |    | C   |    | D   |    |
|----|--|---------|----|-----|----|-----|----|-----|----|
|    |  | Yes     | No | Yes | No | Yes | No | Yes | No |
| 3a | Are there any management or service contracts that may result in private business use?   | X       |    |     |    |     |    |     |    |
| b  | Are there any research agreements that may result in private business use of bond-financed property?   |         | X  |     |    |     |    |     |    |
| c  | Does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts or research agreements relating to the financed property?   | X       |    |     |    |     |    |     |    |
| 4  | Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government  | 3 000 % |    |     |    |     |    |     |    |
| 5  | Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government | 0 %     |    |     |    |     |    |     |    |
| 6  | Total of lines 4 and 5   | 3 000 % |    |     |    |     |    |     |    |
| 7  | Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?  | X       |    |     |    |     |    |     |    |

Part IVArbitrage

|    |  | A                    |    | B   |    | C   |    | D   |    |
|----|--|----------------------|----|-----|----|-----|----|-----|----|
|    |  | Yes                  | No | Yes | No | Yes | No | Yes | No |
| 1  | Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue? |                      | X  |     |    |     |    |     |    |
| 2  | Is the bond issue a variable rate issue?   |                      | X  |     |    |     |    |     |    |
| 3a | Has the organization or the governmental issuer entered into a hedge with respect to the bond issue?                                     |                      | X  |     |    |     |    |     |    |
| b  | Name of provider   |                      |    |     |    |     |    |     |    |
| c  | Term of hedge  |                      |    |     |    |     |    |     |    |
| d  | Was the hedge superintegrated?   |                      |    |     |    |     |    |     |    |
| e  | Was a hedge terminated?  |                      |    |     |    |     |    |     |    |
| 4a | Were gross proceeds invested in a GIC?   | X                    |    |     |    |     |    |     |    |
| b  | Name of provider   | Trinity Plus Funding |    |     |    |     |    |     |    |
| c  | Term of GIC  |                      |    |     |    |     |    |     |    |
| d  | Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?  | X                    |    |     |    |     |    |     |    |
| 5  | Were any gross proceeds invested beyond an available temporary period?   |                      | X  |     |    |     |    |     |    |
| 6  | Did the bond issue qualify for an exception to rebate?   | X                    |    |     |    |     |    |     |    |

Part VSupplemental Information

Complete this part to provide additional information for responses to questions on Schedule K (see instructions)

| Identifier | Return Reference | Explanation |
|------------|------------------|-------------|
|            |                  |             |
|            |                  |             |
|            |                  |             |

SCHEDULE O

(Form 990 or 990-EZ)

Department of the Treasury

Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on Form 990 or to provide any additional information.

▶ Attach to Form 990 or 990-EZ.

OMB No 1545-0047

2010

Open to Public Inspection

|  |  |
|--|--|
| Name of the organization<br>Herbert J Thomas Memorial Hospital Association | Employer identification number<br>55-0404900 |
|--|--|

| Identifier                           | Return Reference | Explanation  |
|--------------------------------------|------------------|--|
| Form 990, Part VI, Section A, line 6 |                  | Thomas Health System, Inc , a nonprofit corporation organized under the laws of the State of West Virginia, is the sole member of the organization |

| Identifier                            | Return Reference | Explanation  |
|---------------------------------------|------------------|--|
| Form 990, Part VI, Section A, line 7a |                  | The organization's board of directors is elected by its sole member, Thomas Health System, Inc |

| Identifier                            | Return Reference | Explanation   |
|---------------------------------------|------------------|---|
| Form 990, Part VI, Section B, line 11 |                  | Thomas Health System, Inc (the System) is the sole member of the organization. The System finance committee is responsible for financial management of the organization. A copy of the 990 is reviewed by the CFO and a copy is provided to the System finance committee before it is filed with the IRS. |



| Identifier | Return Reference                       | Explanation   |
|------------|--|---|
|            | Form 990, Part VI, Section B, line 12c | The organization regularly and consistently monitors and enforces compliance with our written conflict of interest policy by asking annually that all Trustees, officers and employees (managers) who have decision making/purchasing authority disclose any potential conflicts of interest Disclosure forms are signed annually then logged onto a spread sheet that identifies any potential conflicts |

| Identifier | Return Reference                               | Explanation   |
|------------|--|---|
|            | Form 990,<br>Part VI,<br>Section B, line<br>15 | The Executive Compensation Committee, comprised of members who are free of any conflicts of interest, adheres to a disciplined process for reviewing compensation for senior executives to ensure that the compensation is reasonable. The Committee has retained an independent consulting and advisory firm, Yaffe & Company, to provide appropriate market data as to comparability. The Committee reviews comparability data and other relevant evidence and approves the compensation of senior executives, provided, however, that in the case of the CEO, the Board, after review of the comparability data and other relevant evidence, including a recommendation from the Committee, has the final approval with regard to the CEO's compensation. Only those Board members who are free of conflicts of interest vote on the CEO's compensation. All compensation decisions, including the comparability data reviewed and any other relevant information considered, are contemporaneously documented in meeting minutes. |

| Identifier | Return Reference                      | Explanation   |
|------------|---------------------------------------|---|
|            | Form 990, Part VI, Section C, line 19 | The Hospital makes its governing documents, conflict of interest policy and financial statements available to the public upon request. These documents are maintained in the administrative offices of the hospital and are provided via copy upon request. The documents also can be reviewed on site at the hospital upon advance notice. |

| Identifier                             | Return Reference          | Explanation  |
|--|---------------------------|--|
| Changes in Net Assets or Fund Balances | Form 990, Part XI, line 5 | Net unrealized losses on investments -27,609 Income from K-1 - Premier Purchasing Partners LP - 658,691 Defined benefit pension plan adjustment 3,948,901 Distributions from Premier Purchasing Partners LP 557,267 Audit adjustment for prior period -10,216 Total to Form 990, Part XI, Line 5 3,809,652 |

| Identifier                      | Return Reference | Explanation  |
|---------------------------------|------------------|--|
| Explanation of amounts reported | Schedule K       | On June 30, 2008, the West Virginia Hospital Finance Authority issued \$148,920,000 Hopital Improvement Revenue Bonds Series 2008 on behalf of Thomas Health System, Inc. Thomas Health System, Inc. is the sole member of Herbert J. Thomas Memorial Hospital Association (Thomas Memorial Hospital) and Charleston Hospital, Inc. dba St. Francis Hospital. Bond proceeds, and related liability, were allocated between the two hospitals. Total proceeds of the issue reported in Part II, line 3 are net of bond discount in the amount of \$1,333,842. |

SCHEDULE R  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.  
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization  
Herbert J Thomas Memorial Hospital Association

Employer identification number  
55-0404900

Part I

Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

| (a)<br>Name, address, and EIN of disregarded entity | (b)<br>Primary activity | (c)<br>Legal domicile (state or foreign country) | (d)<br>Total income | (e)<br>End-of-year assets | (f)<br>Direct controlling entity |
|---|-------------------------|--|---------------------|---------------------------|----------------------------------|
|   |                         |  |                     |                           |                                  |
|   |                         |  |                     |                           |                                  |
|   |                         |  |                     |                           |                                  |
|   |                         |  |                     |                           |                                  |
|   |                         |  |                     |                           |                                  |
|   |                         |  |                     |                           |                                  |
|   |                         |  |                     |                           |                                  |

Part II

Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

| (a)<br>Name, address, and EIN of related organization   | (b)<br>Primary activity | (c)<br>Legal domicile (state or foreign country) | (d)<br>Exempt Code section | (e)<br>Public charity status (if section 501(c)(3)) | (f)<br>Direct controlling entity | (g)<br>Section 512(b)(13) controlled organization |    |
|---|-------------------------|--|----------------------------|---|----------------------------------|---|----|
|   |                         |  |                            |   |                                  | Yes   | No |
| (1) Thomas Health System Inc<br><br>4605 MacCorkle Avenue SW<br><br>South Charleston, WV 25309<br>26-0440674                | Corporate office        | WV   | 501(c)(3)                  | 3   | N/A                              |   | No |
| (2) Charleston Hospital Inc<br><br>333 Laidley St<br><br>Charleston, WV 25301<br>61-1272692                                 | Hospital                | WV   | 501(c)(3)                  | 3   | N/A                              |   | No |
| (3) Thomas Memorial Hospital Foundation Inc<br><br>4605 MacCorkle Avenue SW<br><br>South Charleston, WV 25309<br>55-0694220 | Hospital support        | WV   | 501(c)(7)                  | 7   | N/A                              |   | No |
|   |                         |  |                            |   |                                  |   |    |
|   |                         |  |                            |   |                                  |   |    |
|   |                         |  |                            |   |                                  |   |    |
|   |                         |  |                            |   |                                  |   |    |

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

| (a)<br>Name, address, and EIN of<br>related organization | (b)<br>Primary activity | (c)<br>Legal<br>domicile<br>(state or<br>foreign<br>country) | (d)<br>Direct controlling<br>entity | (e)<br>Predominant income<br>(related, unrelated,<br>excluded from tax<br>under sections 512-<br>514) | (f)<br>Share of total income | (g)<br>Share of end-of-year<br>assets | (h)<br>Disproporionate<br>allocations? |    | (i)<br>Code V—UBI<br>amount in box 20 of<br>Schedule K-1<br>(Form 1065) | (j)<br>General or<br>managing<br>partner? |    | (k)<br>Percentage<br>ownership |
|--|-------------------------|--|-------------------------------------|---|------------------------------|---------------------------------------|--|----|---|---|----|--------------------------------|
|  |                         |  |                                     |   |                              |                                       | Yes                                    | No |   | Yes                                       | No |                                |
|  |                         |  |                                     |   |                              |                                       |  |    |   |   |    |                                |
|  |                         |  |                                     |   |                              |                                       |  |    |   |   |    |                                |
|  |                         |  |                                     |   |                              |                                       |  |    |   |   |    |                                |
|  |                         |  |                                     |   |                              |                                       |  |    |   |   |    |                                |
|  |                         |  |                                     |   |                              |                                       |  |    |   |   |    |                                |
|  |                         |  |                                     |   |                              |                                       |  |    |   |   |    |                                |
|  |                         |  |                                     |   |                              |                                       |  |    |   |   |    |                                |
|  |                         |  |                                     |   |                              |                                       |  |    |   |   |    |                                |

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

| (a)<br>Name, address, and EIN of related organization  | (b)<br>Primary activity   | (c)<br>Legal domicile<br>(state or<br>foreign<br>country) | (d)<br>Direct controlling<br>entity | (e)<br>Type of entity<br>(C corp, S corp,<br>or trust) | (f)<br>Share of total income | (g)<br>Share of<br>end-of-year<br>assets | (h)<br>Percentage<br>ownership |
|--|---|---|-------------------------------------|--|------------------------------|--|--------------------------------|
| (1) THM Services Inc<br>437 Division Street Ste 311<br>South Charleston, WV25309<br>55-0676607 | Equipment sales,<br>rental and related<br>services and<br>vending sales | WV  | N/A                                 | C  | 82,427                       | 4,817,044                                | 100 000 %                      |
|  |   |   |                                     |  |                              |  |                                |
|  |   |   |                                     |  |                              |  |                                |
|  |   |   |                                     |  |                              |  |                                |
|  |   |   |                                     |  |                              |  |                                |
|  |   |   |                                     |  |                              |  |                                |
|  |   |   |                                     |  |                              |  |                                |

Part V

Transactions With Related Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)

Note. Complete line 1 if any entity is listed in Parts II, III or IV

1

During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

a

Receipt of (i) interest (ii) annuities (iii) royalties (iv) rent from a controlled entity

b

Gift, grant, or capital contribution to other organization(s)

c

Gift, grant, or capital contribution from other organization(s)

d

Loans or loan guarantees to or for other organization(s)

e

Loans or loan guarantees by other organization(s)

f

Sale of assets to other organization(s)

g

Purchase of assets from other organization(s)

h

Exchange of assets

i

Lease of facilities, equipment, or other assets to other organization(s)

j

Lease of facilities, equipment, or other assets from other organization(s)

k

Performance of services or membership or fundraising solicitations for other organization(s)

l

Performance of services or membership or fundraising solicitations by other organization(s)

m

Sharing of facilities, equipment, mailing lists, or other assets

n

Sharing of paid employees

o

Reimbursement paid to other organization for expenses

p

Reimbursement paid by other organization for expenses

q

Other transfer of cash or property to other organization(s)

r

Other transfer of cash or property from other organization(s)

Yes

No

1a

1b

1c

1d

1e

1f

1g

1h

1i

1j

1k

1l

1m

1n

1o

1p

1q

1r

No

No

Yes

No

No

No

No

No

No

No

No

No

No

No

No

No

No

No

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

| (a)<br>Name of other organization           | (b)<br>Transaction<br>type(a-r) | (c)<br>Amount involved | (d)<br>Method of determining amount<br>involved |
|---|---------------------------------|------------------------|---|
| (1) Thomas Memorial Hospital Foundation Inc | C                               | 1,154,930              | FMV - Cash                                      |
| (2)   |                                 |                        |   |
| (3)   |                                 |                        |   |
| (4)   |                                 |                        |   |
| (5)   |                                 |                        |   |
| (6)   |                                 |                        |   |

Schedule R (Form 990) 2010



Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

[illegible]

**Part VII**   **Supplemental Information**

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

| Identifier | Return Reference | Explanation |
|------------|------------------|-------------|
|------------|------------------|-------------|

**THOMAS HEALTH SYSTEM, INC.  
AND SUBSIDIARIES**

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***Consolidated  
Financial Statements***

***September 30, 2011***

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## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Audit Committee of the  
Board of Directors  
Thomas Health System, Inc  
and Subsidiaries  
South Charleston, West Virginia

We have audited the accompanying consolidated balance sheets of Thomas Health System, Inc and subsidiaries (the System) as of September 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of TMH Services, Inc, a wholly owned, for-profit, consolidated subsidiary, as of, and for the year ended, September 30, 2010, which statements reflect total assets of \$4,370,179 and total revenues of \$991,732 of the related 2010 consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to amounts included for TMH Services, Inc, at September 30, 2010, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, based on our audits and the 2010 report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thomas Health System, Inc and subsidiaries as of September 30, 2011 and 2010, and the results of their operations, changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

ARNETT & FOSTER, P.L.L.C.

*Arnett & Foster, P.L.L.C.*

Charleston, West Virginia  
January 16, 2012

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## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

September 30, 2011 and 2010

| <b>ASSETS</b>  | <b>2011</b>           | <b>2010</b>           |
|--|-----------------------|-----------------------|
| <b>Current assets</b>  |                       |                       |
| Cash and cash equivalents  | \$ 18,769,085         | \$ 20,331,396         |
| Investments  | 256,242               | 253,089               |
| Assets limited as to use   | 13,421,160            | 11,248,838            |
| Patient accounts receivable, net of allowance for doubtful<br>accounts of \$20,301,000 in 2011 and \$18,915,000<br>in 2010 | 25,409,998            | 24,346,205            |
| Supplies inventories   | 7,523,989             | 7,479,665             |
| Prepaid and other current assets   | 3,595,806             | 2,439,942             |
| <b>Total current assets</b>  | <b>68,976,280</b>     | <b>66,099,135</b>     |
| <b>Assets limited as to use, net of current portion</b>  | <b>40,097,679</b>     | <b>41,568,079</b>     |
| <b>Property and equipment, net</b>   | <b>179,267,956</b>    | <b>187,081,465</b>    |
| <b>Other assets</b>  |                       |                       |
| Investments  | 27,337                | 13,895                |
| Deferred financing costs, net  | 2,429,427             | 2,544,129             |
| Pledges receivable, net of current portion   | 502,648               | 1,548,141             |
| Other  | 608,451               | 516,405               |
|  | <b>3,567,863</b>      | <b>4,622,570</b>      |
| <b>Total assets</b>  | <b>\$ 291,909,778</b> | <b>\$ 299,371,249</b> |
| <b>LIABILITIES AND NET ASSETS</b>  |                       |                       |
| <b>Current liabilities</b>   |                       |                       |
| Current portion of long-term debt  | \$ 1,885,698          | \$ 873,209            |
| Accounts payable and accrued expenses  | 16,139,020            | 16,408,048            |
| Accrued salaries and benefits  | 9,037,019             | 8,147,677             |
| Accrued self-insurance liability   | 2,627,322             | 1,595,000             |
| Estimated third-party payor settlements  | 2,138,416             | 1,570,820             |
| <b>Total current liabilities</b>   | <b>31,827,475</b>     | <b>28,594,754</b>     |
| <b>Accrued pension and postretirement benefits</b>   | <b>29,146,013</b>     | <b>32,835,374</b>     |
| <b>Accrued self-insurance liability</b>  | <b>7,659,678</b>      | <b>7,780,000</b>      |
| <b>Long-term debt, net of current portion</b>  | <b>153,425,440</b>    | <b>154,677,387</b>    |
| <b>Total liabilities</b>   | <b>222,058,606</b>    | <b>223,887,515</b>    |
| <b>Net assets</b>  |                       |                       |
| Unrestricted   | 67,204,839            | 72,325,838            |
| Temporarily restricted   | 1,589,235             | 2,108,453             |
| Permanently restricted   | 1,057,098             | 1,049,443             |
| <b>Total net assets</b>  | <b>69,851,172</b>     | <b>75,483,734</b>     |
| <b>Total liabilities and net assets</b>  | <b>\$ 291,909,778</b> | <b>\$ 299,371,249</b> |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended September 30, 2011 and 2010

|  | 2011                  | 2010                  |
|--|-----------------------|-----------------------|
| <b>Unrestricted revenue, gains and other support</b> |                       |                       |
| Net patient service revenue                          | \$ 255,072,448        | \$ 257,131,910        |
| Investment income                                    | 1,590,286             | 641,914               |
| Rental income  | 2,290,111             | 2,313,938             |
| Other revenue  | 2,597,378             | 2,522,453             |
| Grant income   | 38,642                | 870,503               |
| Public support – donations                           | 1,877,521             | 1,378,664             |
| <b>Total revenue, gains and other support</b>        | <b>263,466,386</b>    | <b>264,859,382</b>    |
| <b>Expenses</b>                                      |                       |                       |
| Salaries and wages                                   | 82,699,096            | 82,448,626            |
| Employee benefits                                    | 24,941,452            | 25,368,617            |
| Supplies and other                                   | 81,732,243            | 84,300,667            |
| Purchased services                                   | 25,905,018            | 25,150,670            |
| Depreciation and amortization                        | 16,513,830            | 15,001,240            |
| West Virginia provider tax                           | 4,999,099             | 5,125,941             |
| Provision for doubtful accounts                      | 22,307,241            | 20,496,256            |
| Interest   | 10,233,656            | 5,786,710             |
| Insurance  | 3,212,644             | 2,656,535             |
| <b>Total expenses</b>                                | <b>272,544,279</b>    | <b>266,335,262</b>    |
| <b>Deficiency of revenues over expenses</b>          | <b>(9,077,893)</b>    | <b>(1,475,880)</b>    |
| <b>Other changes in net assets</b>                   |                       |                       |
| Net unrealized gains and (losses) on investments     | (27,609)              | 1,250,687             |
| Defined benefit pension plan adjustment              | 3,948,901             | (1,827,128)           |
| Change in fair value of derivatives                  | 35,602                | (151,303)             |
| <b>Decrease in unrestricted net assets</b>           | <b>\$ (5,120,999)</b> | <b>\$ (2,203,624)</b> |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended September 30, 2011 and 2010

|  | 2011                 | 2010                 |
|--|----------------------|----------------------|
| <b>Unrestricted net assets</b>                       |                      |                      |
| Deficiency of revenues over expenses                 | \$ (9,077,893)       | \$ (1,475,880)       |
| Net unrealized gains and (losses) on investments     | (27,609)             | 1,250,687            |
| Defined benefit pension plan adjustment              | 3,948,901            | (1,827,128)          |
| Change in fair value of derivatives                  | 35,602               | (151,303)            |
| <b>Decrease in unrestricted net assets</b>           | <b>(5,120,999)</b>   | <b>(2,203,624)</b>   |
| <b>Temporarily restricted net assets</b>             |                      |                      |
| Public support - donations                           | 52,686               | 9,405                |
| Investment income                                    | -                    | 36,202               |
| Net assets released from restriction                 | (571,904)            | (414,111)            |
| <b>Decrease in temporarily restricted net assets</b> | <b>(519,218)</b>     | <b>(368,504)</b>     |
| <b>Permanently restricted net assets</b>             |                      |                      |
| Public support - donations                           | 7,655                | 150,600              |
| <b>Increase in permanently restricted net assets</b> | <b>7,655</b>         | <b>150,600</b>       |
| <b>Decrease in net assets</b>                        | <b>(5,632,562)</b>   | <b>(2,421,528)</b>   |
| <b>Net assets, beginning of year</b>                 | <b>75,483,734</b>    | <b>77,905,262</b>    |
| <b>Net assets, end of year</b>                       | <b>\$ 69,851,172</b> | <b>\$ 75,483,734</b> |



## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended September 30, 2011 and 2010**

|  | 2011                 | 2010                 |
|--|----------------------|----------------------|
| <b>Cash Flows From Operating Activities</b>  |                      |                      |
| Decrease in net assets   | \$ (5,632,562)       | \$ (2,421,528)       |
| Adjustments to reconcile change in net assets to net cash provided by operating activities |                      |                      |
| Depreciation and amortization  | 16,513,830           | 15,001,240           |
| Loss on sale of property and equipment   | -                    | 65,634               |
| Provision for doubtful accounts  | 22,307,241           | 20,496,256           |
| Net realized and unrealized gains on investments   | (1,070,603)          | (1,323,375)          |
| Defined benefit pension plan adjustment  | (3,948,901)          | 1,827,128            |
| Restricted contributions and income, net   | 511,563              | 217,904              |
| Change in working capital components   |                      |                      |
| (Increase) decrease in   |                      |                      |
| Patient accounts receivable  | (23,371,034)         | (19,605,613)         |
| Supplies inventories   | (44,324)             | (78,810)             |
| Other assets   | (157,437)            | 471,907              |
| Increase (decrease) in   |                      |                      |
| Accounts payable and accrued expenses  | (269,028)            | (2,998,607)          |
| Accrued salaries and benefits  | 889,342              | (1,902,434)          |
| Estimated third-party payor settlements  | 567,596              | 309,058              |
| Other liabilities  | 1,171,540            | 744,562              |
| <b>Net cash provided by operating activities</b>   | <b>7,467,223</b>     | <b>10,803,322</b>    |
| <b>Cash Flows From Investing Activities</b>  |                      |                      |
| Purchase of property and equipment   | (8,630,599)          | (40,873,860)         |
| Proceeds from sale of property and equipment   | -                    | 5,500                |
| Net (purchases) sales of investments   | -                    | (135,580)            |
| Net (purchases) sales of assets limited as to use  | 352,086              | 32,123,497           |
| <b>Net cash used in investing activities</b>   | <b>(8,278,513)</b>   | <b>(8,880,443)</b>   |
| <b>Cash Flows From Financing Activities</b>  |                      |                      |
| Principal payments on long-term obligations  | (782,209)            | (816,109)            |
| Proceeds from the issuance of long-term debt   | 542,751              | -                    |
| Restricted contributions and income, net   | (511,563)            | (217,904)            |
| <b>Net cash used in financing activities</b>   | <b>(751,021)</b>     | <b>(1,034,013)</b>   |
| <b>Net increase (decrease) in cash and cash equivalents</b>                                | <b>(1,562,311)</b>   | <b>888,866</b>       |
| <b>Cash and cash equivalents, beginning</b>  | <b>20,331,396</b>    | <b>19,442,530</b>    |
| <b>Cash and cash equivalents, ending</b>   | <b>\$ 18,769,085</b> | <b>\$ 20,331,396</b> |
| <b>Supplemental disclosure of cash flow information</b>                                    |                      |                      |
| Cash paid for interest   | \$ 9,870,119         | \$ 5,767,837         |
| Capital lease obligations for new equipment  | \$ -                 | \$ 389,940           |

# THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Note 1. Nature of Operations and Significant Accounting Policies

**Nature of operations:** Thomas Health System, Inc (the System) is a not-for-profit corporation organized and existing under the laws of the State of West Virginia. The System was incorporated on December 4, 2006, in connection with a reorganization of Herbert J. Thomas Memorial Hospital Association and the acquisition of Charleston Hospital, Inc (d/b/a Saint Francis Hospital). The System is the sole corporate member of both entities. Subsidiaries of the System are as follows:

- Herbert J. Thomas Memorial Hospital Association (Thomas Memorial) – A not-for-profit corporation organized and existing under the laws of the State of West Virginia. Thomas Memorial operates a 260 bed acute care hospital under the name Thomas Memorial Hospital in South Charleston, West Virginia. The subsidiary of Thomas Memorial is as follows:
  - TMH Services, Inc (TMH Services) – A wholly owned, for-profit corporation that provides services including the sales and rental of communications equipment and related services, vending sales, and various other services.
- Foundation for the Thomas Memorial and Saint Francis Hospitals, Inc's (name, bylaws and articles of incorporation changed September 24, 2011) previously Thomas Memorial Hospital Foundation, Inc (the Foundation) – A Foundation established to solicit, raise, hold and invest contributions, gifts, bequests and devises for the purpose of providing support to Thomas Memorial and Saint Francis.
- Charleston Hospital, Inc (d/b/a Saint Francis Hospital) (Saint Francis) – A not-for-profit corporation organized and existing under the laws of the State of West Virginia. Saint Francis operates a 123 bed acute care hospital under the name Saint Francis Hospital in Charleston, West Virginia.

### A summary of significant accounting policies is as follows:

**Basis of consolidation:** The accompanying consolidated financial statements include the accounts of the System and its subsidiaries and are collectively referred to in these statements as the "System." All significant intercompany transactions and balances have been eliminated in consolidation.

**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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those assumed in determining the allowance for doubtful accounts, estimated third-party payor settlements, accrued pension, accrued medical malpractice cost and accrued health insurance cost. It is at least reasonably possible that the significant estimates used will change within the next year.

**Basis of presentation:** Net assets and revenues, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the System and changes therein are classified and reported as follows:

**Unrestricted** – Resources over which the Board of Directors has discretionary control. The retained earnings of Thomas Memorial's for-profit subsidiary, TMH Services, are also included in this classification of net assets.

**Temporarily restricted** – Resources subject to donor imposed restrictions, which will be satisfied by actions of the System or passage of time. These net assets primarily consist of Foundation investments restricted for scholarships and Thomas Memorial capital projects.

**Permanently restricted** – Resources subject to donor imposed restrictions that they be maintained permanently by the System or for which perpetual trusts have been established. The donors of these resources permit the System to use all or part of the income earned on related investments, excluding capital appreciation, for scholarships, capital projects and other unrestricted purposes.

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**Cash and cash equivalents:** Cash and cash equivalents include all highly liquid debt instruments with an original maturity of three months or less. The System routinely invests its surplus operating funds in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations.

**Patient accounts receivable:** Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectibility. Management also reviews troubled, aged accounts to determine collection potential. Patient accounts receivable are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received. Interest is not charged on patient accounts receivable.

**Pledges receivable:** The Foundation has pledges receivable approximating \$1,287,000 and \$2,055,000 as of September 30, 2011 and 2010, respectively. As of September 30, 2011 and 2010, payments of approximately \$784,000 and \$507,000, respectively, are expected to be received within one year and are included in prepaid and other current assets, and \$503,000 and \$1,548,000 within one to five years and are included in other long-term assets, respectively.

**Supplies inventories:** Supplies inventories are stated at latest invoice cost, which approximates lower of cost (first-in, first-out method) or market.

**Assets limited as to use:** Assets limited as to use primarily include assets held by trustees under indenture agreements and internally designated amounts by the Board for the System's self-insurance program and future capital improvements. Amounts required to meet the current liabilities of the System are reclassified as current in the accompanying consolidated balance sheets.

**Investments:** Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess (deficiency) of revenues over expenses unless the income or loss is restricted by donor or law, in which case the income or loss is reported as a change in temporarily or permanently restricted net assets in the consolidated statement of changes in net assets. Realized net gains and losses are computed based on the original cost of the investment sold. Unrealized gains and losses on investments are excluded from the excess (deficiency) of revenues over expenses.

**Property and equipment:** Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Expenditures for repairs and maintenance are charged to expense as incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of land, buildings, and equipment are reported at fair value and are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the System reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Deferred financing costs:** Deferred financing costs are amortized over the remaining life of the debt using the interest method. Total net unamortized debt issue costs at September 30, 2011 and 2010 are \$2,837,934 and are included in other long-term assets. Accumulated amortization of debt issue costs at September 30, 2011 and 2010 is \$408,507 and \$293,805, respectively.

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**Excess (deficiency) of revenues over expenses:** The consolidated statement of operations includes *excess (deficiency) of revenues over expenses*. Changes in unrestricted net assets which are excluded from *excess (deficiency) of revenues over expenses*, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and amounts necessary to recognize defined benefit pension plan adjustments

**Net patient service revenue:** The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period and related services are rendered and adjusted in future periods as final settlements are determined.

**Charity care:** The System provides care to patients, who meet certain criteria under their charity care policy, without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue in the System's consolidated financial statements.

**Donor-restricted gifts:** Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently 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 statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

**Estimated malpractice costs:** The provision for estimated medical malpractice claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

**Income taxes:** The System, Thomas Memorial, the Foundation and Saint Francis are recognized as exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes relating to not-for-profit organizations. Under applicable provisions of the Internal Revenue Code and state statutes, TMH Services, which is a for-profit entity and subject to Federal and state income taxes, elected to be treated as a C-corporation for income tax purposes. Under this election, stockholders separately account for their pro rata shares of TMH Services' items of income, deductions, losses and credits, and no income taxes are recognized in TMH Services' financial statements.

**Unrelated business income tax (UBIT):** There is currently very little guidance in the IRS Code on what activities should be subject to UBIT. The IRS has indicated that they are studying the issue and may issue additional guidance. As a result, at this time there is uncertainty regarding whether the System should pay income tax on certain types of net taxable income from activities that may be considered by taxing authorities as unrelated to the purpose for which the System was granted non-taxable status. In the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed to be unrelated to the System's non-taxable status is not expected to have a material effect on the System's financial position or results of operations.

The System is subject to routine audits by taxing jurisdictions, however, there are currently no audits for any tax periods in progress. The management of the System believes it is no longer subject to income tax examinations for years prior to the fiscal year ended September 30, 2008.

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**Derivative Instruments and Hedging Activities:** The System utilizes derivative financial instruments to reduce interest rate risk. The System does not hold or issue derivative financial instruments for trading purposes. The System recognizes all derivatives as either assets or liabilities and measures those instruments at fair value. The changes in the fair value of the System derivative instruments are recorded as changes in net assets as they qualify for hedge accounting.

**Reclassifications:** Certain reclassifications were made in the 2010 financial statements to conform to the 2011 presentation.

**Subsequent events:** The System has evaluated subsequent events through January 16, 2012, the date on which the financial statements were available to be issued.

**New or recent accounting pronouncements:** Health Care Entities Topic 954 (Accounting Standards Update No. 2010-23) of the FASB Accounting Standards Codification *Measuring Charity Care for Disclosure* is effective for fiscal years beginning after December 15, 2010. Management's policy for providing charity care, as well as the level of charity care provided, shall be disclosed in the financial statements. Such disclosure shall be measured based on the provider's costs of providing charity care services. If costs cannot be specifically attributed to services provided to charity care patients (for example, based on a cost accounting system), management may estimate the costs of those services using reasonable techniques. This should be applied retrospectively to all prior periods presented. Earlier application is permitted. The System will be required to adopt Topic 954 (No. 2010-23) in its 2012 annual financial statements.

Health Care Entities Topic 954 (Accounting Standards Update No. 2010-24) of the FASB Accounting Standards Codification *Presentation of Insurance Claims and Related Insurance Recoveries* is effective for fiscal years beginning after December 15, 2010. A health care entity should not net insurance recoveries for medical malpractice claims against a related medical malpractice claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. A cumulative-effect adjustment should be recognized in opening net assets in the period of adoption if a difference exists between any liability and insurance receivables recorded as a result of application. Early application is permitted. The System will be required to adopt Topic 954 (No. 2010-24) in its 2012 annual financial statements.

On July 25, 2011, the Financial Accounting Standards Board issued Accounting Standards Update (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*. The amendments in this Update, which become effective for fiscal years ending after December 15, 2012, require certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The System will be required to adopt Topic 954 (No. 2011-07) in its 2013 annual financial statements.

Management does not believe these new standards will have a material impact on the consolidated financial statements.

#### Note 2. Cash Concentrations

The System maintains cash in demand deposit accounts with Federally insured banks. At times the balance in these accounts may be in excess of Federally insured limits. In management's opinion, the amounts in excess of FDIC limits do not pose a significant risk.

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 3. Investments and Subsequent Event*****Assets Limited as to Use***

The composition of assets limited as to use at September 30, 2011 and 2010, respectively is set forth in the following table. Investments are stated at fair value.

|  | 2011                 | 2010                 |
|--|----------------------|----------------------|
| <b>Under self-insurance program:</b>   |                      |                      |
| Cash and cash equivalents  | \$ 759,730           | \$ 431,270           |
| United States government obligations   | -                    | 354,179              |
| Corporate bonds  | 94,454               | -                    |
| Mutual funds   | 8,574,876            | 8,948,570            |
| <b>Total</b>   | <b>9,429,060</b>     | <b>9,734,019</b>     |
| <b>Held by Trustee Under Indenture Agreement</b>   |                      |                      |
| Cash and cash equivalents  | 11,729,354           | 4,405,714            |
| United States government obligations   | 6,092,450            | 10,112,040           |
| Guaranteed investment contract   | -                    | 3,954,367            |
| <b>Total</b>   | <b>17,821,804</b>    | <b>18,472,121</b>    |
| <b>By Board of Directors for future capital expenditures and deferred compensation:</b>  |                      |                      |
| Cash and cash equivalents  | 11,995,966           | 541,154              |
| Mutual funds   | 914,193              | 10,860,912           |
| United States government obligations   | 9,967,475            | 9,835,072            |
| <b>Total</b>   | <b>22,877,634</b>    | <b>21,237,138</b>    |
| <b>Foundation investments restricted for future support of Thomas Memorial projects:</b> |                      |                      |
| Cash and cash equivalents  | 99,786               | 1,463,309            |
| United States government obligations   | 321,240              | 225,800              |
| Corporate bonds  | 927,955              | 159,783              |
| Mutual funds   | 1,488,729            | 1,253,829            |
| Equity securities  | 552,631              | 270,918              |
| <b>Total</b>   | <b>3,390,341</b>     | <b>3,373,639</b>     |
| <b>Total assets limited as to use</b>  | <b>53,518,839</b>    | <b>52,816,917</b>    |
| <b>Less assets limited as to use that are required for current liabilities</b>           | <b>13,421,160</b>    | <b>11,248,838</b>    |
| <b>Noncurrent assets limited as to use</b>   | <b>\$ 40,097,679</b> | <b>\$ 41,568,079</b> |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Other Investments**

Other investments included in current and long-term investments, stated at fair value, at September 30, 2011 and 2010 include

|   | 2011              | 2010              |
|---|-------------------|-------------------|
| Certificate of Deposit                      | \$ 256,242        | \$ 253,089        |
| Partnership investments – TMH Services, Inc | 27,337            | 13,895            |
|   | <u>\$ 283,579</u> | <u>\$ 266,984</u> |

Investment income and gains for assets limited as to use, cash equivalents and other investments are comprised of the following for the year ended September 30, 2011 and 2010

|  | 2011                | 2010                |
|--|---------------------|---------------------|
| Investment income included in revenues   |                     |                     |
| Interest and dividend income             | \$ 492,074          | \$ 569,226          |
| Realized gains                           | 1,098,212           | 72,688              |
|  | <u>\$ 1,590,286</u> | <u>\$ 641,914</u>   |
| Other changes in unrestricted net assets |                     |                     |
| Unrealized gains (losses) on investments | <u>\$ (27,609)</u>  | <u>\$ 1,250,687</u> |

The System has various investments in equity securities and other investment securities. These investment securities are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that the changes in risks in the near-term could materially affect the amounts reported in the balance sheet and the statement of operations and changes in net assets.

At September 30, 2011, the System has \$28,934,000 in investments excluding cash and cash equivalents. Of these investments, approximately \$10,253,000 are in a loss position of approximately \$967,000 at September 30, 2011. Of these securities, approximately \$3,812,000 have been in an unrealized loss position of approximately \$655,000 for more than 12 months as of September 30, 2011. As of December 31, 2011, the unrealized loss position had improved by approximately \$340,000.

The System continually reviews non-trading investments for impairment conditions that indicate that an other-than-temporary decline in market value has occurred. In conducting this review, numerous factors are considered which, individually or in combination, indicate that a decline is other-than-temporary and that a reduction of the carrying value is required. These factors include specific information pertaining to an individual company or a particular industry and general market conditions that reflect prospects for the economy as a whole. Based on this review, the System did not recognize an other-than-temporary loss during the years ended September 30, 2011 and 2010.

Investments consist of fixed income funds, equity securities and mortgage and asset backed securities. There is no concentration of investments in any one security or industry sector which would account for the above noted unrealized losses. Management has consulted with its investment advisors and believes that temporary market fluctuations account for these positions, and that based upon the objectives of the System, the investments will fully recover before the need to liquidate. Further, the System has the ability and intent to hold these investments until they are no longer in a loss position.

The System does not require collateral to secure its investments.

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 4. Fair Value of Financial Instruments**

The Fair Value Measurements and Disclosures Topic of the FASB Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements

The Topic defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1:** Quoted prices for identical assets or liabilities traded in active exchange markets, such as the New York Stock Exchange
- Level 2:** Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data
- Level 3:** Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation, also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data

**Fair Value Measurements**

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy:

**Investments and Assets Limited as to Use:** Investment securities and assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating. Level 1 securities include those traded on an active exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, mortgage-backed securities and municipal bonds. Level 3 securities include guaranteed investment contracts.

**Financial Instruments Measured at Fair Value on a Recurring Basis**

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis at September 30, 2011:

|                                 | Total at<br>September 30,<br>2011 | Fair Value Measurements Using |         |         |
|---------------------------------|-----------------------------------|-------------------------------|---------|---------|
|                                 |                                   | Level 1                       | Level 2 | Level 3 |
| <b>Assets:</b>                  |                                   |                               |         |         |
| <b>Assets limited as to use</b> |                                   |                               |         |         |
| Cash and cash equivalents       | \$ 24,584,836                     | \$ 24,584,836                 | \$ -    | \$ -    |



## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

|                                  | Total at<br>September 30,<br>2011 | Fair Value Measurements Using |                      |             |
|----------------------------------|-----------------------------------|-------------------------------|----------------------|-------------|
|                                  |                                   | Level 1                       | Level 2              | Level 3     |
| <b>Corporate stocks</b>          |                                   |                               |                      |             |
| Consumer Goods                   | 183,138                           | 183,138                       | -                    | -           |
| Energy                           | 75,476                            | 75,476                        | -                    | -           |
| Financials                       | 25,762                            | 25,762                        | -                    | -           |
| Health Care                      | 41,502                            | 41,502                        | -                    | -           |
| Industrials                      | 8,320                             | 8,320                         | -                    | -           |
| Information Technology           | 50,162                            | 50,162                        | -                    | -           |
| Services                         | 49,934                            | 49,934                        | -                    | -           |
| Telecommunications               | 38,731                            | 38,731                        | -                    | -           |
| Other                            | 79,606                            | 79,606                        | -                    | -           |
|                                  | <u>552,631</u>                    | <u>552,631</u>                | <u>-</u>             | <u>-</u>    |
| <b>Corporate bonds</b>           | <u>1,022,409</u>                  | <u>-</u>                      | <u>1,022,409</u>     | <u>-</u>    |
| <b>Government obligations</b>    |                                   |                               |                      |             |
| FHLB                             | 4,787,615                         | -                             | 4,787,615            | -           |
| FNMA                             | 7,934,023                         | -                             | 7,934,023            | -           |
| FHLMC                            | 3,413,792                         | -                             | 3,413,792            | -           |
| U S Treasury obligation          | 115,045                           | 115,045                       | -                    | -           |
| Other                            | 130,690                           | 130,690                       | -                    | -           |
|                                  | <u>16,381,165</u>                 | <u>245,735</u>                | <u>16,135,430</u>    | <u>-</u>    |
| <b>Mutual funds</b>              |                                   |                               |                      |             |
| Fixed income funds               | 4,810,387                         | 4,810,387                     | -                    | -           |
| Equity funds                     | 5,843,888                         | 5,843,888                     | -                    | -           |
| Blended funds                    | 99,673                            | 99,673                        | -                    | -           |
| Alternative funds                | 223,850                           | 223,850                       | -                    | -           |
|                                  | <u>10,977,798</u>                 | <u>10,977,798</u>             | <u>-</u>             | <u>-</u>    |
| Total investments at fair value  | <u>\$ 53,518,839</u>              | <u>\$ 36,361,000</u>          | <u>\$ 17,157,839</u> | <u>\$ -</u> |
| <b>Liabilities:</b>              |                                   |                               |                      |             |
| Derivative financial instruments | <u>\$ (148,005)</u>               | <u>\$ -</u>                   | <u>\$ (148,005)</u>  | <u>\$ -</u> |

The condensed table below presents the recorded amounts of assets and liabilities measured at fair value on a recurring basis at September 30, 2010

|                                  | Total at<br>September 30,<br>2010 | Fair Value Measurements Using |             |             |
|----------------------------------|-----------------------------------|-------------------------------|-------------|-------------|
|                                  |                                   | Level 1                       | Level 2     | Level 3     |
| <b>Assets:</b>                   |                                   |                               |             |             |
| <b>Assets limited as to use</b>  |                                   |                               |             |             |
| <b>Cash and cash equivalents</b> | <u>\$ 6,851,018</u>               | <u>\$ 6,851,018</u>           | <u>\$ -</u> | <u>\$ -</u> |
| <b>Corporate stocks</b>          |                                   |                               |             |             |
| Consumer Goods                   | 67,318                            | 67,318                        | -           | -           |
| Energy                           | 48,150                            | 48,150                        | -           | -           |
| Financials                       | 31,803                            | 31,803                        | -           | -           |
| Health Care                      | 23,989                            | 23,989                        | -           | -           |
| Industrials                      | 18,235                            | 18,235                        | -           | -           |
| Information Technology           | 33,067                            | 33,067                        | -           | -           |
| Materials                        | 6,916                             | 6,916                         | -           | -           |
| Other                            | 22,923                            | 22,923                        | -           | -           |
| Telecommunications               | 13,382                            | 13,382                        | -           | -           |
| Utilities                        | 5,135                             | 5,135                         | -           | -           |
|                                  | <u>270,918</u>                    | <u>270,918</u>                | <u>-</u>    | <u>-</u>    |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

|                                     | Total at<br>September 30,<br>2010 | Fair Value Measurements Using |               |              |
|-------------------------------------|-----------------------------------|-------------------------------|---------------|--------------|
|                                     |                                   | Level 1                       | Level 2       | Level 3      |
| <b>Corporate bonds</b>              | 263,102                           | -                             | 263,102       | -            |
| <b>Government obligations</b>       |                                   |                               |               |              |
| FHLB                                | 8,147,477                         | -                             | 8,147,477     | -            |
| FFCB                                | 1,102,209                         | -                             | 1,102,209     | -            |
| FNMA                                | 2,642,124                         | -                             | 2,642,124     | -            |
| FHLMC                               | 8,504,277                         | -                             | 8,504,277     | -            |
| TVA                                 | 27,685                            | -                             | 27,685        | -            |
|                                     | 20,423,772                        | -                             | 20,423,772    | -            |
| <b>Mutual funds</b>                 |                                   |                               |               |              |
| Fixed income funds                  | 8,153,547                         | 8,153,547                     | -             | -            |
| Equity funds                        | 11,804,106                        | 11,804,106                    | -             | -            |
| Blended funds                       | 970,232                           | 970,232                       | -             | -            |
| Alternative funds                   | 125,855                           | 125,855                       | -             | -            |
|                                     | 21,053,740                        | 21,053,740                    | -             | -            |
| Guaranteed investment<br>Contracts  | 3,954,367                         | -                             | -             | 3,954,367    |
| Total investments at fair value     | \$ 52,816,917                     | \$ 28,175,676                 | \$ 20,686,874 | \$ 3,954,367 |
| <b>Liabilities:</b>                 |                                   |                               |               |              |
| Derivative financial<br>instruments | \$ (183,607)                      | \$ -                          | \$ (183,607)  | \$ -         |

**Level 3 Investments**

Activity related to Level 3 investments which include investments and assets limited as to use is as follows (in thousands)

|  |              |
|--|--------------|
| Balance at September 30, 2010                                  | \$ 3,954,367 |
| Additions  | 134,523      |
| Distributions  | (4,194,170)  |
| Investment income included in excess of revenues over expenses | 105,280      |
| Balance at September 30, 2011                                  | \$ -         |

**Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis**

The System has no assets or liabilities that are recorded on a nonrecurring basis

**Fair Value of Financial Instruments**

*Cash and cash equivalents:* The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value

*Patient accounts receivable:* The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value

*Accounts payable and accrued expenses:* The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value

*Estimated third-party payor settlements:* The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Long-term debt:* Fair values of the System's revenue notes are based on current traded value. The fair value of the System's remaining long-term debt is estimated using discounted cash flow analyses, based on the System's current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amount and fair values of the System's financial instruments at September 30, 2011 and 2010 are as follows:

|                                       | 2011            |                | 2010            |                |
|---------------------------------------|-----------------|----------------|-----------------|----------------|
|                                       | Carrying Amount | Fair Value     | Carrying Amount | Fair Value     |
| Cash and cash equivalents             | \$ 18,769,085   | \$ 18,769,085  | \$ 20,331,396   | \$ 20,331,396  |
| Patient accounts receivable           | \$ 25,409,998   | \$ 25,409,998  | \$ 24,346,205   | \$ 24,346,205  |
| Accounts payable and accrued expenses | \$ 16,139,020   | \$ 16,139,020  | \$ 16,408,048   | \$ 16,408,048  |
| Estimated third-party settlements     | \$ 2,138,416    | \$ 2,138,416   | \$ 1,570,820    | \$ 1,570,820   |
| Long-term debt                        | \$ 155,311,138  | \$ 155,311,138 | \$ 155,550,596  | \$ 155,550,596 |

**Note 5. Property and Equipment**

A summary of the components of property and equipment at September 30, 2011 and 2010 follows:

|                               | 2011                  | 2010                  |
|-------------------------------|-----------------------|-----------------------|
| Land                          | \$ 22,563,818         | \$ 22,459,312         |
| Land improvements             | 3,201,883             | 3,185,542             |
| Buildings and improvements    | 181,257,144           | 177,348,524           |
| Equipment                     | 136,981,667           | 130,122,112           |
| Construction in progress      | 1,203,235             | 4,101,583             |
|                               | <u>345,207,747</u>    | <u>337,217,073</u>    |
| Less accumulated depreciation | <u>(165,939,791)</u>  | <u>(150,135,608)</u>  |
| Property and equipment, net   | <u>\$ 179,267,956</u> | <u>\$ 187,081,465</u> |

Capital lease assets at September 30, 2011 and 2010, included in property and equipment are as follows:

|                               | 2011               | 2010              |
|-------------------------------|--------------------|-------------------|
| Equipment                     | \$ 1,339,174       | \$ 1,339,174      |
| Less accumulated amortization | <u>(1,042,095)</u> | <u>(798,544)</u>  |
|                               | <u>\$ 297,079</u>  | <u>\$ 540,630</u> |

Thomas Memorial leases certain land, buildings and improvements, and equipment from the City of South Charleston for \$100 per annum. The present lease agreement expires in 2048.

The System is lessor of office space under various operating lease arrangements, principally to physicians and medical groups. The total cost of the approximately 211,000 square feet being leased has not been determined and is included in buildings and improvements.

**Note 6. Long-Term Debt**

A summary of long-term debt as of September 30, 2011 and 2010 follows:

|   | 2011       | 2010       |
|---|------------|------------|
| Note payable, individual, due in monthly installments of \$5,024 including interest at 5% per annum, secured by real estate | \$ 145,833 | \$ 197,443 |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

|  | 2011                  | 2010                  |
|--|-----------------------|-----------------------|
| Note payable, bank, due in monthly installments of \$51,249 for five years, with a balloon payment of remaining principle and interest due at the end of this term. Note bears interest at a variable rate of LIBOR plus 2.20%, adjusted for interest rate swap arrangement to obtain a fixed rate of 4.52%. Note is secured under Master Indenture of the Series 2008 bond issue. | 3,857,532             | 4,285,050             |
| Note payable, bank, due in monthly installments of \$23,821 including interest at 6.250% per annum thru December 2034, interest only payments until January 2011, secured by building and an assignment of all leases and rents.   | 3,917,815             | 3,507,613             |
| Hospital Revenue Bonds, Series 2008, terms below   | 148,920,000           | 148,920,000           |
| Capital lease obligations, monthly payments ranging from \$2,310 to \$20,159, including interest ranging from 4.50% to 6.80% through April 2014, secured by related equipment.   | 311,442               | 565,161               |
|  | 157,152,622           | 157,475,267           |
| Less bond discount   | 1,841,484             | 1,924,671             |
| Less current portion   | 1,885,698             | 873,209               |
| Long-term debt   | <u>\$ 153,425,440</u> | <u>\$ 154,677,387</u> |

**Hospital Revenue Bonds (Thomas Health System, Inc.) Series 2008 Bonds**

The West Virginia Hospital Finance Authority (WVHFA) issued \$148,920,000 in Hospital Revenue Bonds on June 30, 2008. Pursuant to the loan agreement, the WVHFA loaned the System the net proceeds of the Bonds. The Bond proceeds were for the payment of the \$45,000,000 Bridge Loan, used to purchase assets of Saint Francis, to construct a Hospital Pavilion at Thomas Memorial and acquire equipment and other capital expenditures related to such campus, provide for capital expenditures for 2009 fund a debt service reserve fund for Bonds, fund capitalized interest on a portion of the Bonds and to pay the costs of issuance of the Bonds. The System is repaying the loan in installment payments, which provides for the payment of principal and interest on the Series 2008 Bonds in accordance with the stated maturity and redemption dates. Under the Master Indenture, the 2008 Notes are secured by the funds created with the Bond proceeds, all gross receipts of the System, and any and all other interests in real or personal property.

The Hospital Revenue Bonds, Series 2008, mature in various amounts through 2043. The stated fixed interest rates range from 5.0% to 6.75%.

The loan agreement and trust indenture of the Hospital Revenue Bonds, Series 2008 contain certain financial covenants, which include a debt service coverage ratio, days cash on hand liquidity ratio and maximum long-term debt to capitalization ratio in any fiscal year. The System was in compliance with these requirements at September 30, 2011.

Scheduled principal payments on long-term debt obligations and payments on capital lease obligations are as follows:

| Year ending September 30  | Long-Term Obligations | Capital Lease Obligations | Total                 |
|---|-----------------------|---------------------------|-----------------------|
| 2012  | \$ 1,762,913          | \$ 135,336                | \$ 1,898,249          |
| 2013  | 1,855,100             | 123,784                   | 1,978,884             |
| 2014  | 4,368,025             | 72,784                    | 4,440,809             |
| 2015  | 1,467,527             | -                         | 1,467,527             |
| 2016  | 1,544,745             | -                         | 1,544,745             |
| Thereafter  | 145,842,870           | -                         | 145,842,870           |
|   | <u>\$ 156,841,180</u> | 331,904                   | 157,173,084           |
| Less amount representing interest under capital lease obligations |                       | (20,462)                  | (20,462)              |
|   |                       | <u>\$ 311,442</u>         | <u>\$ 157,152,622</u> |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of interest cost and investment income on borrowed funds held by the trustee under the 2008 revenue bond indenture during the years ended September 30, 2011 and 2010 follows

|                           | 2011                | 2010                |
|---------------------------|---------------------|---------------------|
| Interest cost             |                     |                     |
| Capitalized               | \$ -                | \$ 4,287,752        |
| Charged to operations     | <u>9,870,119</u>    | <u>5,366,086</u>    |
| Total                     | <u>\$ 9,870,119</u> | <u>\$ 9,653,838</u> |
| Investment income         |                     |                     |
| Capitalized               | \$ -                | \$ 520,786          |
| Credited to other revenue | <u>-</u>            | <u>-</u>            |
| Total                     | <u>\$ -</u>         | <u>\$ 520,786</u>   |

**Note 7. Interest Rate Risk Management**

The System entered into an interest rate related derivative instrument to manage interest rate exposure on its 2009 note payable with Huntington Bank. The System does not enter into derivative instruments for any purpose other than interest rate management purposes. That is, the System does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counter-party to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counter-party owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counter-party and, therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions with high-quality counter-parties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rates is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The System issued variable-rate debt to pay off an existing line-of-credit. The debt obligation exposes the System to variability in interest payments due to changes in interest rates. Conversely, fixed-rate debt obligations can be more expensive to the System in times of declining interest rates. Management believes it is prudent to monitor and manage its cost of capital on a regular basis. To meet this objective, management from time to time may enter into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk.

In February 2009, the System entered into an interest rate swap agreement in the notional amount of \$4,925,000 related to the 2009 debt issue. The purpose of the swap was to convert the System's variable-rate cash flow exposure on the debt obligations to fixed rate cash flows. Under the terms of the interest rate swap, the System receives a variable interest rate payment (based on the Bond Rate, or if certain triggering events occur, an alternative floating rate option of USD-LIBOR-BBA) in exchange for making fixed interest rate payments (4.52%) to the swap counter-party, thereby creating the equivalent of fixed-rate debt.

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair value of derivative instruments designated as hedging instruments are as follows

| Balance Sheet<br>Location                                      | Fair Value   |              |
|--|--------------|--------------|
|  | 2011         | 2010         |
| <u>Cash Flow Hedges</u>  |              |              |
| Interest rate contract - Accounts payable and accrued expenses | \$ (148,005) | \$ (183,607) |
| Total derivative designated as hedging instruments             | \$ (148,005) | \$ (183,607) |

The following table summarizes the effect of the derivative instrument on the Statement of Changes in Net Assets for the years ended September 30, 2011 and 2010

| Derivatives Designated as<br>Hedging Instruments for the<br>Year Ending September 30 | (Loss) Recognized in<br>Income | Amount of Gain or (Loss)<br>in Net Assets (Effective Portion) |              |
|--|--------------------------------|---|--------------|
|  |                                | 2011  | 2010         |
| <u>Cash Flow Hedges</u>  |                                |   |              |
| Interest rate contract   | Change in value of derivatives | \$ 35,602   | \$ (151,303) |

**Note 8. Net Patient Service Revenue**

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. A summary of the payment arrangements with major third-party payors follows

- **Medicare**

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are paid primarily based on prospectively determined payment classifications.

For cost reimbursement items, the System is reimbursed at a tentative rate, with a final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary. The System's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization.

- **Medicaid**

Inpatient, acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. The System is reimbursed for outpatient services on an established fee-for-service methodology. Adult psychiatric services are reimbursed on the basis of cost. For cost reimbursed services, the System is reimbursed at a tentative rate, with a final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid fiscal intermediary.

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- **Commercial Insurance Carriers**

The System also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the System under these agreements includes various discounts from established charges.

- **West Virginia Health Care Authority**

The Legislature of the State of West Virginia has created the Health Care Authority to regulate hospitals' gross patient revenue based on limitation orders compiled from rate schedules and budgets submitted by the hospitals on a periodic basis. If a hospital's charges are held to be excessive or unreasonable, the Health Care Authority may require rebates to consumers or adjustments to subsequent year revenue limits.

- **Medicaid Disproportionate Share Enhancement Program**

Under the West Virginia Medicaid Disproportionate Share Enhancement Program, funds are distributed based on, among other things, each particular hospital's cost of uncompensated care compared to other hospitals in the State. This reimbursement, approximating \$1,506,000 and \$1,562,000 for the years ended September 30, 2011 and 2010, respectively, has been included in net patient service revenue in the accompanying consolidated statement of operations. Funds received from this program are subject to retroactive adjustment.

The State of West Virginia Disproportionate Share Hospital State Plan was amended to provide for a settlement process among participating hospitals. The State has not completed a settlement process for years subsequent to 1996. The Bureau for Medical Services of the State of West Virginia Department of Health and Human Resources (the Bureau) has contracted with a third-party vendor to assist with the audit settlement process for the Disproportionate Share (DSH) Hospital State Plan. The laws and regulations governing the DSH settlement process are complex, involving statistical data from all participating hospitals, and subject to interpretation. Accordingly, the System is not able to estimate the possible losses that could arise upon completion of the DSH settlement process. The ultimate resolution of the settlement process could materially impact the System's future results of operations or cash flows in a particular period.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of gross and net patient service revenue for all of the System's payors for the years ended September 30, 2011 and 2010 follows:

|                               | 2011                  | 2010                  |
|-------------------------------|-----------------------|-----------------------|
| Gross patient service revenue | \$ 594,221,974        | \$ 569,057,290        |
| Less provision for            |                       |                       |
| Contractual adjustments       | 332,534,407           | 303,531,807           |
| Charity care                  | 6,615,119             | 8,393,573             |
| Net patient service revenue   | <u>\$ 255,072,448</u> | <u>\$ 257,131,910</u> |

**Note 9. Deferred Compensation Arrangements**

Thomas Memorial has an employee deferred compensation plan (the plan) for key employees created in accordance with Internal Revenue Code Section 457(f) and 457(b). Thomas Memorial has established a trust for the funds, and makes periodic elective contributions to the plan. Contributions are charged to salaries and wages expense. The amount held in trust at September 30, 2011 and 2010 was \$927,144 and \$845,948, respectively, and is recorded in assets limited as to use with an equal amount recorded in accrued salaries and benefits.

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 10. Commitments and Contingencies****Professional and General Liability Coverage**

The System is self-insured for medical malpractice and general liability claims up to \$10,000,000 per claim and \$10,000,000 in the aggregate annually. Losses in excess of these limits are insured with a claims-made excess policy with a commercial insurance carrier with limits up to \$10,000,000. The ultimate costs of malpractice claims, which include costs associated with litigating or settling claims, are accrued when the incidents that give rise to the claims occur. Estimated losses from asserted and unasserted claims are accrued based on the best estimates of the ultimate costs of the claims and the relationship of past reported incidents to eventual claims payments. All relevant information, including industry experience, actuarial calculations, historical experience, existing asserted claims, and reported incidents, is used in estimating the expected amount of claims to be paid. The accrual also includes an estimate of the losses that will result from unreported incidents, which are probable of having occurred before the end of the reporting period. Accrued malpractice costs, which are recorded in the current and noncurrent portions of accrued self-insurance liability, were \$10,287,000 and \$9,375,000 at September 30, 2011 and 2010, respectively. Accrued malpractice losses have not been discounted and in management's opinion provide an adequate reserve for loss contingencies.

The System established an irrevocable trust for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreement, the trust assets can only be used for payment of malpractice and general liability losses, related expenses, and the cost of administering the trust. The trust fund is included in assets limited as to use. At September 30, 2011 and 2010, the fund had a balance of \$9,429,060 and \$9,734,019, respectively.

**Litigation**

The System is a defendant in various lawsuits wherein various amounts are claimed. In the opinion of management, the likelihood of an unfavorable outcome in excess of insurance coverage or self-insured malpractice reserves is remote and the judgments, if unfavorable, would not have a material adverse effect on the System's financial statements.

**Voluntary Self-Disclosure to Centers for Medicare and Medicaid Services (CMS)**

The System has made a Voluntary Disclosure Submission to CMS for a technical violation of a Stark II Amendment regulation in failing to obtain the signatures for a limited number of physician practices. If the System is found in violation of the regulation, the System could be subject to repayment and penalties and interest. No amount has been recorded as a liability because the ultimate outcome of the issue is unknown and the settlement amount, if any, cannot be determined at this time. However, management believes that the results of the self-disclosure will not jeopardize the economic viability of the System.

**Note 11. Functional Expenses**

The System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

|                            | 2011                  | 2010                  |
|----------------------------|-----------------------|-----------------------|
| Health care services       | \$ 264,931,465        | \$ 254,709,605        |
| General and administrative | 6,418,262             | 10,854,372            |
| Fundraising                | 1,194,552             | 771,285               |
| <b>Total</b>               | <b>\$ 272,544,279</b> | <b>\$ 266,335,262</b> |



## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 12. Concentrations of Credit Risk**

Thomas Memorial is located in South Charleston, West Virginia, and Saint Francis is located in Charleston, West Virginia. Together, they grant credit without collateral to their patients, many of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from the third-party payors and patients are as follows:

|              | 2011        | 2010        |
|--------------|-------------|-------------|
| Medicare     | 31%         | 33%         |
| Medicaid     | 7%          | 8%          |
| Private pay  | 2%          | 1%          |
| Other payors | 60%         | 58%         |
|              | <u>100%</u> | <u>100%</u> |

**Note 13. Health Care Legislation and Regulation**

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that the System is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the System is found in violation of these laws, the System could be subject to substantial monetary fines, civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs.

**Note 14. Pension Plans and Other Postretirement Benefit Plans and Subsequent Event****Thomas Memorial Defined Benefit Pension Plan (the Plan):**

The Plan covers substantially all full-time employees hired prior to January 1, 2012. All employees hired after December 31, 2011 will be eligible to participate in the Saint Francis Deferred Compensation Plan described below. Benefits under the Plan are based on the employee's years of service and the employee's compensation during the years of employment. Thomas Memorial's funding policy is to contribute annually such amounts as determined by actuarial computations to comply with the Employee Retirement Income Security Act of 1974 (ERISA) minimum funding requirements.

The following tables set forth the changes in benefit obligations, changes in plan assets and components of net periodic benefit cost as of September 30.

|  | 2011                   | 2010                   |
|--|------------------------|------------------------|
| <b>Change in projected benefit obligation</b>      |                        |                        |
| Benefit obligation at the beginning of year        | \$ 83,218,751          | \$ 74,065,900          |
| Service cost                                       | 3,439,675              | 3,306,226              |
| Interest cost                                      | 4,151,367              | 3,976,868              |
| Actuarial (gain)/loss                              | (6,604,851)            | 3,968,538              |
| Benefits paid                                      | (2,333,256)            | (2,098,781)            |
| Benefit obligation at the end of year              | <u>\$ 81,871,686</u>   | <u>\$ 83,218,751</u>   |
| <b>Change in plan assets</b>                       |                        |                        |
| Fair value of plan assets at the beginning of year | \$ 50,383,377          | \$ 43,423,216          |
| Actual return on plan assets                       | (264,448)              | 4,558,942              |
| Employer contributions                             | 4,940,000              | 4,500,000              |
| Benefits paid                                      | (2,333,256)            | (2,098,781)            |
| Fair value of plan assets at the end of year       | <u>52,725,673</u>      | <u>50,383,377</u>      |
| <b>Funded status at end of year</b>                | <u>\$ (29,146,013)</u> | <u>\$ (32,835,374)</u> |

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Amounts recognized on balance sheet consist of:

|                        | 2011                   | 2010                   |
|------------------------|------------------------|------------------------|
| Noncurrent liabilities | <u>\$ (29,146,013)</u> | <u>\$ (32,835,374)</u> |
|                        | <u>\$ (29,146,013)</u> | <u>\$ (32,835,374)</u> |

Accumulated amounts recognized in other changes in unrestricted net assets:

|                    | 2011                   | 2010                   |
|--------------------|------------------------|------------------------|
| Net actuarial loss | \$ (29,137,501)        | \$ (32,567,035)        |
| Prior service cost | <u>(4,284,772)</u>     | <u>(4,804,139)</u>     |
|                    | <u>\$ (33,422,273)</u> | <u>\$ (37,371,174)</u> |

The accumulated benefit obligation was \$78,333,064 and \$78,639,825 at September 30, 2011 and 2010, respectively

Net periodic benefit cost and other amounts recognized in other changes in net assets:

|  | 2011                | 2010                |
|--|---------------------|---------------------|
| Net periodic benefit cost  | \$ 5,199,540        | \$ 4,865,560        |
| Other changes in plan assets and benefit obligations recognized in unrestricted net assets |                     |                     |
| Net (gain)/loss for period   | (1,754,597)         | 3,601,410           |
| Amortization of net(loss)/gain   | (1,674,937)         | (1,208,065)         |
| Amortized prior service cost   | <u>(519,367)</u>    | <u>(566,217)</u>    |
| Total amount recognized in other changes in net assets                                     | <u>(3,948,901)</u>  | <u>1,827,128</u>    |
| Total recognized in net periodic benefit cost and other changes in net assets              | <u>\$ 1,250,639</u> | <u>\$ 6,692,688</u> |

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$1,202,736 and \$1,674,937, respectively. The estimated prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$519,367 and \$519,367, respectively.

The actuarially computed net periodic pension costs included the following components

|                                    | 2011                | 2010                |
|------------------------------------|---------------------|---------------------|
| Service cost                       | \$ 3,439,675        | \$ 3,306,226        |
| Interest cost                      | 4,151,367           | 3,976,868           |
| Expected return on plan assets     | (4,585,806)         | (4,191,814)         |
| Amortization of prior service cost | 519,367             | 566,215             |
| Recognized actuarial (gain)/loss   | <u>1,674,937</u>    | <u>1,208,065</u>    |
| Net periodic benefit cost          | <u>\$ 5,199,540</u> | <u>\$ 4,865,560</u> |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Additional Information

## Assumptions

Weighted average assumptions used to determine net periodic benefit cost for the years ended September 30, 2011 and 2010

|                                | 2011  | 2010  |
|--------------------------------|-------|-------|
| Discount rate                  | 5.06% | 5.45% |
| Expected return on plan assets | 8.00% | 8.00% |
| Rate of compensation increase  | 2.50% | 3.50% |

## Plan Assets

The composition of plan assets at September 30, 2011 and 2010 is as follows

|                   | 2011        | 2010        |
|-------------------|-------------|-------------|
| Equity securities | 75%         | 79%         |
| Debt Securities   | 22%         | 19%         |
| Other             | 3%          | 2%          |
|                   | <u>100%</u> | <u>100%</u> |

The table below presents the recorded amount of Plan assets measured at a fair value on a recurring basis at September 30, 2011 under the fair value framework as described in Note 4

| Plan Assets             | Total at<br>September 30,<br>2011 | Fair Value Measurements Using: |             |             |
|-------------------------|-----------------------------------|--------------------------------|-------------|-------------|
|                         |                                   | Level 1                        | Level 2     | Level 3     |
| <b>Cash equivalents</b> | \$ 1,460,247                      | \$ 1,460,247                   | \$ -        | \$ -        |
| <b>Mutual Funds</b>     |                                   |                                |             |             |
| Fixed income funds      | 14,683,880                        | 14,683,880                     | -           | -           |
| Equity funds            | 31,640,325                        | 31,640,325                     | -           | -           |
| Diversified funds       | 4,941,221                         | 4,941,221                      | -           | -           |
|                         | <u>51,265,426</u>                 | <u>51,265,426</u>              |             |             |
|                         | <u>\$ 52,725,673</u>              | <u>\$ 52,725,673</u>           | <u>\$ -</u> | <u>\$ -</u> |

Thomas Memorial's Board of Directors determines the investment policy for the Plan. A strategic allocation within each asset class is employed based on the Plan's time horizon, risk tolerances, performance expectations, and asset class preferences. Investment managers have discretion to invest in any equity or fixed-income asset class, subject to the securities guidelines of the Plan's Investment Policy Statement.

## Cash Flow Information

Thomas Memorial contributed \$4,940,000 and \$4,500,000 in 2011 and 2010, respectively, and expects to contribute \$5,535,000 to its pension plan in 2012.

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Estimated Fixed Benefit Payments**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid

| Fiscal Year | Benefits      |
|-------------|---------------|
| 2012        | \$ 2,559,809  |
| 2013        | \$ 2,751,632  |
| 2014        | \$ 2,962,880  |
| 2015        | \$ 3,237,729  |
| 2016        | \$ 3,567,007  |
| 2017 – 2021 | \$ 23,765,325 |

**Thomas Memorial Deferred Compensation Plan**

In addition to the defined benefit pension plan, Thomas Memorial sponsors a deferred compensation plan under Section 403(b) of the Internal Revenue Code (IRC) (the Savings Plan). All full-time employees are eligible to participate in the Savings Plan. Employees are permitted to have elective deferrals under the Savings Plan during any calendar year up to specified regulatory maximums adjusted for qualified employees in accordance with IRC Section 402(g). Thomas Memorial makes a contribution equal to an employee's elective deferral, not to exceed 125% of an employee's effective compensation. All employee elective deferrals and employer contributions made on behalf of each participant are invested in a tax deferred annuity contract or custodial account and vest immediately. Thomas Memorial's expense relating to the Savings Plan approximated \$297,000 and \$286,000 in 2011 and 2010, respectively, which is included in employee benefits in the accompanying consolidated statements of operations.

**Saint Francis Deferred Compensation Plan**

Saint Francis has a defined contribution retirement plan (the Saint Francis Plan) covering substantially all its employees. Under the provisions of the Saint Francis Plan, Saint Francis matches contributions at 100% for the first 4% that the employee contributes and matches 50% for the next two percentages up to a total match of 5% on a 6% employee contribution. Participants are fully vested immediately. Pension expense was \$950,713 and \$884,673 for 2011 and 2010, respectively.

**Thomas Memorial Defined Contribution Plan**

Effective July 1, 2012 a new 401(k) deferred contribution plan will be available to employees hired prior to January 1, 2012. This new Plan will have similar funding levels as the above mentioned Thomas Memorial Deferred Compensation Plan.

**Note 15. Lease Commitments and Total Rental Expense**

The System leases various equipment under operating leases with various expiration dates through June 2016. Total rental expense in 2011 and 2010 for all operating leases was approximately \$3,486,000 and \$3,488,000, respectively, and is included in supplies and other in the accompanying statement of operations.

The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2011, that have initial or remaining lease terms in excess of one year:

| Year ending September 30            | Amount              |
|-------------------------------------|---------------------|
| 2012                                | \$ 1,114,573        |
| 2013                                | 534,250             |
| 2014                                | 288,833             |
| 2015                                | 115,050             |
| 2016                                | 6,078               |
| Total future minimum rental expense | <u>\$ 2,058,784</u> |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 16. Lessor Leasing Activities**

The System leases space under operating leases with terms of one to ten years. Rental income recognized from these leases was approximately \$2,290,000 and \$2,324,000 for 2011 and 2010, respectively.

The following is a schedule by year of future minimum rental income as of September 30, 2011 and 2010:

| Year ending September 30           | Amount              |
|------------------------------------|---------------------|
| 2012                               | \$ 2,618,793        |
| 2013                               | 2,170,096           |
| 2014                               | 1,832,187           |
| 2015                               | 1,283,825           |
| 2016                               | 559,320             |
| Thereafter                         | <u>657,745</u>      |
| Total future minimum rental income | <u>\$ 9,121,966</u> |

**Note 17. Investments in Subsidiaries and Guarantee**

TMH Services is a 50% owner in a partnership which is currently accounted for under the equity method of accounting. Under the equity method, TMH Services recognizes its share of partnership income or loss as income or loss in its statement of operations and such amounts are added to, or subtracted from, its investment in subsidiaries. Dividends or other distributions received, if any, are treated as a reduction of the investment account.

Combined and condensed financial information as of September 30, 2011 and 2010 for TMH Services' unconsolidated subsidiary follows:

|             | 2011         | 2010         |
|-------------|--------------|--------------|
| Assets      | \$ 2,133,314 | \$ 2,161,240 |
| Liabilities | \$ 2,078,640 | \$ 2,134,907 |
| Equity      | \$ 54,674    | \$ 26,333    |
| Net Income  | \$ 38,843    | \$ 14,525    |

Total liabilities for the consolidated subsidiary at September 30, 2011 and 2010 include various mortgages, notes, and construction loans payable that total \$2,064,219 and \$2,111,506, respectively. TMH Services is a guarantor of these debt instruments. The debts are substantially collateralized by real estate and other assets to which they relate. TMH Services' partners are jointly and severally liable for the debt.

**Note 18. Related Party Transactions**

The System leases medical office space, primarily to physicians on staff, under noncancelable operating leases with terms generally ranging from one to ten years. Rental income under these operating leases was approximately \$1,426,000 and \$1,445,000 in 2011 and 2010, respectively, and is included in rental income in the accompanying consolidated statement of operations.

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 19. Endowment and Permanently Restricted Net Assets**

Topic 958-205 of the FASB Standards Codification (formerly FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations - Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds

The endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support the following at September 30, 2011 and 2010

|                           | 2011                | 2010                |
|---------------------------|---------------------|---------------------|
| Scholarships – Auxiliary  | \$ 28,325           | \$ 28,325           |
| Scholarships – Laboratory | 98,293              | 97,693              |
| Scholarships – LPN and RN | 104,732             | 102,732             |
| Scholarships – Surgery    | 32,705              | 32,705              |
| Scholarships – Other      | 24,175              | 23,674              |
| Endowment                 | 768,868             | 764,314             |
|                           | <u>\$ 1,057,098</u> | <u>\$ 1,049,443</u> |

The Board of Directors of the System has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted funds

- 1 The duration and preservation of the fund
- 2 The purpose of the Foundation and the donor-restricted endowment fund
- 3 General economic conditions
- 4 The possible effect of inflation and deflation
- 5 The expected total return from income and the appreciation of investments
- 6 Other resources of the Foundation
- 7 The investment policies of the Foundation

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the System must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

Changes in endowment funds for the fiscal year ended September 30, 2011, consisted of the following:

|   | <b>Permanently<br/>Restricted</b> |
|---|-----------------------------------|
| <b>Net assets, beginning of the year</b>        | \$ 1,049,443                      |
| Contributions                                   | <u>7,655</u>                      |
| <b>Endowment net assets after contributions</b> | <u><u>\$ 1,057,098</u></u>        |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the System to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. There were no significant deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2011 and 2010.



## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Audit Committee of the Board of Directors  
Thomas Health System, Inc. and Subsidiaries  
South Charleston, West Virginia

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements as of and for the years ended September 30, 2011 and 2010 taken as a whole. The consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the basic consolidated financial statements. The consolidating information as of and for the years ended September 30, 2011 and 2010, has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, based upon our audits and the report of other auditors as explained in our report on the basic consolidated financial statements on page 1, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

ARNETT & FOSTER, P.L.L.C.

*Arnett & Foster, P.L.L.C.*

Charleston, West Virginia  
January 16, 2012

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## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET

September 30, 2011

|   | Thomas<br>Health<br>System, Inc. | Thomas<br>Memorial<br>Hospital and<br>Subsidiaries | Saint Francis<br>Hospital | Foundation<br>For the<br>Thomas<br>Memorial and<br>St. Francis<br>Hospitals Inc. | Eliminations        | Thomas<br>Health<br>System<br>Consolidated<br>Balance |
|---|----------------------------------|--|---------------------------|--|---------------------|---|
| <b>ASSETS</b>   |                                  |  |                           |  |                     |   |
| <b>Current Assets</b>   |                                  |  |                           |  |                     |   |
| Cash and cash equivalents   | \$ -                             | \$ 10,663,614                                      | \$ 7,916,443              | \$ 189,028   | \$ -                | \$ 18,769,085   |
| Investments   | -                                | 256,242  | -                         | -  | -                   | 256,242   |
| Assets limited as to use  | -                                | 13,421,160   | -                         | -  | -                   | 13,421,160  |
| Patient accounts receivable,<br>net of allowance for<br>doubtful accounts | -                                | 15,456,544   | 9,953,454                 | -  | -                   | 25,409,998  |
| Supplies inventories  | -                                | 3,125,418  | 4,398,571                 | -  | -                   | 7,523,989   |
| Prepaid and other current<br>assets                                       | -                                | 1,332,547  | 2,463,756                 | 783,559  | (984,056)           | 3,595,806   |
| <b>Total current assets</b>   | -                                | <b>44,255,525</b>                                  | <b>24,732,224</b>         | <b>972,587</b>   | <b>(984,056)</b>    | <b>68,976,280</b>                                     |
| <b>Assets limited as to use, net</b>                                      | -                                | <b>36,707,338</b>                                  | -                         | <b>3,390,341</b>   | -                   | <b>40,097,679</b>                                     |
| <b>Property and equipment, net</b>  | -                                | <b>143,391,569</b>                                 | <b>35,875,761</b>         | <b>626</b>   | -                   | <b>179,267,956</b>                                    |
| <b>Other Assets</b>   |                                  |  |                           |  |                     |   |
| Investments   | -                                | 27,337   | -                         | -  | -                   | 27,337  |
| Deferred financing costs, net   | -                                | 2,053,736  | 375,691                   | -  | -                   | 2,429,427   |
| Pledges receivable, net   | -                                | -  | -                         | 502,648  | -                   | 502,648   |
| Other   | -                                | 327,599  | 280,852                   | -  | -                   | 608,451   |
|   | -                                | <b>2,408,672</b>                                   | <b>656,543</b>            | <b>502,648</b>   | -                   | <b>3,567,863</b>                                      |
| <b>Total assets</b>   | <b>\$ -</b>                      | <b>\$ 226,763,104</b>                              | <b>\$ 61,264,528</b>      | <b>\$ 4,866,202</b>  | <b>\$ (984,056)</b> | <b>\$ 291,909,778</b>                                 |
| <b>LIABILITIES AND NET ASSETS</b>   |                                  |  |                           |  |                     |   |
| <b>Current Liabilities</b>  |                                  |  |                           |  |                     |   |
| Current portion of long-term<br>debt                                      | \$ -                             | \$ 1,018,114                                       | \$ 867,584                | \$ -   | \$ -                | \$ 1,885,698  |
| Accounts payable and<br>accrued expenses                                  | -                                | 11,445,876   | 5,651,493                 | 25,707   | (984,056)           | 16,139,020  |
| Accrued salaries and benefits   | -                                | 5,502,568  | 3,534,451                 | -  | -                   | 9,037,019   |
| Accrued self-insurance<br>liability                                       | -                                | 2,627,322  | -                         | -  | -                   | 2,627,322   |
| Estimated third-party<br>payor settlements                                | -                                | 1,766,331  | 372,085                   | -  | -                   | 2,138,416   |
| <b>Total current liabilities</b>  | -                                | <b>22,360,211</b>                                  | <b>10,425,613</b>         | <b>25,707</b>  | <b>(984,056)</b>    | <b>31,827,475</b>                                     |
| <b>Accrued pension and post-<br/>retirement benefits</b>                  | -                                | <b>29,146,013</b>                                  | -                         | -  | -                   | <b>29,146,013</b>                                     |
| <b>Accrued self-insurance<br/>liability</b>                               | -                                | <b>7,659,678</b>                                   | -                         | -  | -                   | <b>7,659,678</b>                                      |
| <b>Long-term debt, net of<br/>current portion</b>                         | -                                | <b>105,484,307</b>                                 | <b>47,941,133</b>         | -  | -                   | <b>153,425,440</b>                                    |
| <b>Total liabilities</b>  | -                                | <b>164,650,209</b>                                 | <b>58,366,746</b>         | <b>25,707</b>  | <b>(984,056)</b>    | <b>222,058,606</b>                                    |
| <b>Net assets</b>   |                                  |  |                           |  |                     |   |
| Unrestricted  | -                                | 62,112,895   | 2,894,567                 | 2,197,377  | -                   | 67,204,839  |
| Temporarily restricted  | -                                | -  | 3,215                     | 1,586,020  | -                   | 1,589,235   |
| Permanently restricted  | -                                | -  | -                         | 1,057,098  | -                   | 1,057,098   |
| <b>Total net assets</b>   | -                                | <b>62,112,895</b>                                  | <b>2,897,782</b>          | <b>4,840,495</b>   | -                   | <b>69,851,172</b>                                     |
| <b>Total liabilities and<br/>net assets</b>                               | <b>\$ -</b>                      | <b>\$ 226,763,104</b>                              | <b>\$ 61,264,528</b>      | <b>\$ 4,866,202</b>  | <b>\$ (984,056)</b> | <b>\$ 291,909,778</b>                                 |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET

September 30, 2010

|   | Thomas<br>Health<br>System, Inc | Thomas<br>Memorial<br>Hospital and<br>Subsidiaries | Saint Francis<br>Hospital | Eliminations   | Thomas<br>Health<br>System<br>Consolidated<br>Balance |
|---|---------------------------------|--|---------------------------|----------------|---|
| <b>ASSETS</b>   |                                 |  |                           |                |   |
| <b>Current Assets</b>   |                                 |  |                           |                |   |
| Cash and cash equivalents   | \$ -                            | \$ 11,681,867                                      | \$ 8,649,529              | \$ -           | \$ 20,331,396   |
| Investments   | -                               | 253,089  | -                         | -              | 253,089   |
| Assets limited as to use  | -                               | 11,248,838   | -                         | -              | 11,248,838  |
| Patient accounts receivable,<br>net of allowance for<br>doubtful accounts | -                               | 14,689,798   | 9,656,407                 | -              | 24,346,205  |
| Supplies inventories  | -                               | 3,315,192  | 4,164,473                 | -              | 7,479,665   |
| Prepaid and other current<br>assets                                       | -                               | 1,587,519  | 1,886,760                 | (1,034,337)    | 2,439,942   |
| <b>Total current assets</b>   | -                               | 42,776,303   | 24,357,169                | (1,034,337)    | 66,099,135  |
| <b>Assets limited as to use, net</b>                                      | -                               | 41,568,079   | -                         | -              | 41,568,079  |
| <b>Property and equipment, net</b>  | -                               | 150,038,703  | 37,042,762                | -              | 187,081,465   |
| <b>Other Assets</b>   |                                 |  |                           |                |   |
| Investments   | -                               | 13,895   | -                         | -              | 13,895  |
| Deferred financing costs, net   | -                               | 2,146,636  | 397,493                   | -              | 2,544,129   |
| Pledges receivable, net   | -                               | 1,548,141  | -                         | -              | 1,548,141   |
| Other   | -                               | 322,800  | 193,605                   | -              | 516,405   |
|   | -                               | 4,031,472  | 591,098                   | -              | 4,622,570   |
| <b>Total assets</b>   | \$ -                            | \$ 238,414,557                                     | \$ 61,991,029             | \$ (1,034,337) | \$ 299,371,249  |
| <b>LIABILITIES AND NET ASSETS</b>   |                                 |  |                           |                |   |
| <b>Current Liabilities</b>  |                                 |  |                           |                |   |
| Current portion of long-term<br>debt                                      | \$ -                            | \$ 445,691   | \$ 427,518                | \$ -           | \$ 873,209  |
| Accounts payable and<br>accrued expenses                                  | -                               | 11,456,145   | 5,986,240                 | (1,034,337)    | 16,408,048  |
| Accrued salaries and benefits   | -                               | 5,031,406  | 3,116,271                 | -              | 8,147,677   |
| Accrued self-insurance<br>liability                                       | -                               | 1,595,000  | -                         | -              | 1,595,000   |
| Estimated third-party<br>payor settlements                                | -                               | 1,309,592  | 261,228                   | -              | 1,570,820   |
| <b>Total current liabilities</b>  | -                               | 19,837,834   | 9,791,257                 | (1,034,337)    | 28,594,754  |
| <b>Accrued pension and post-<br/>retirement benefits</b>                  | -                               | 32,835,374   | -                         | -              | 32,835,374  |
| <b>Accrued self-insurance<br/>liability</b>                               | -                               | 7,780,000  | -                         | -              | 7,780,000   |
| <b>Long-term debt, net of<br/>current portion</b>                         | -                               | 105,840,544  | 48,836,843                | -              | 154,677,387   |
| <b>Total liabilities</b>  | -                               | 166,293,752  | 58,628,100                | (1,034,337)    | 223,887,515   |
| <b>Net assets</b>   |                                 |  |                           |                |   |
| Unrestricted  | -                               | 68,966,124   | 3,359,714                 | -              | 72,325,838  |
| Temporarily restricted  | -                               | 2,105,238  | 3,215                     | -              | 2,108,453   |
| Permanently restricted  | -                               | 1,049,443  | -                         | -              | 1,049,443   |
| <b>Total net assets</b>   | -                               | 72,120,805   | 3,362,929                 | -              | 75,483,734  |
| <b>Total liabilities and<br/>net assets</b>                               | \$ -                            | \$ 238,414,557                                     | \$ 61,991,029             | \$ (1,034,337) | \$ 299,371,249  |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended September 30, 2011

|  | Thomas<br>Health<br>System, Inc. | Thomas<br>Memorial<br>Hospital and<br>Subsidiaries | Saint Francis<br>Hospital | Foundation<br>For the<br>Thomas<br>Memorial and<br>St. Francis<br>Hospitals Inc. | Eliminations | Thomas<br>Health<br>System<br>Consolidated<br>Balance |
|--|----------------------------------|--|---------------------------|--|--------------|---|
| <b>Unrestricted revenue, gains<br/>and other support</b> |                                  |  |                           |  |              |   |
| Net patient service revenue                              | \$ -                             | \$ 153,251,120                                     | \$ 101,821,328            | \$ -   | \$ -         | \$ 255,072,448  |
| Investment income  | -                                | 1,718,743  | 81,776                    | (210,233)  | -            | 1,590,286   |
| Rental income  | -                                | 1,663,206  | 626,905                   | -  | -            | 2,290,111   |
| Other revenue  | -                                | 2,151,110  | 721,198                   | -  | (274,930)    | 2,597,378   |
| Grant income   | -                                | 21,126   | 17,516                    | -  | -            | 38,642  |
| Public support – donations                               | -                                | 880,000  | -                         | 999,451  | (1,930)      | 1,877,521   |
| <b>Total revenue, gains<br/>and other support</b>        | -                                | 159,685,305  | 103,268,723               | 789,218  | (276,860)    | 263,466,386   |
| <b>Expenses</b>  |                                  |  |                           |  |              |   |
| Salaries and wages                                       | -                                | 52,538,571   | 30,160,525                | -  | -            | 82,699,096  |
| Employee benefits  | -                                | 17,091,080   | 7,850,372                 | -  | -            | 24,941,452  |
| Supplies and other                                       | -                                | 44,777,634   | 36,035,140                | 1,194,399  | (274,930)    | 81,732,243  |
| Provision for doubtful<br>accounts                       | -                                | 14,138,705   | 8,168,536                 | -  | -            | 22,307,241  |
| Purchased services                                       | -                                | 15,831,785   | 10,075,163                | -  | (1,930)      | 25,905,018  |
| Depreciation and<br>amortization                         | -                                | 11,915,637   | 4,598,040                 | 153  | -            | 16,513,830  |
| West Virginia provider tax                               | -                                | 2,864,533  | 2,134,566                 | -  | -            | 4,999,099   |
| Interest   | -                                | 6,443,267  | 3,790,389                 | -  | -            | 10,233,656  |
| Insurance  | -                                | 2,255,903  | 956,741                   | -  | -            | 3,212,644   |
| <b>Total expenses</b>                                    | -                                | 167,857,115  | 103,769,472               | 1,194,552  | (276,860)    | 272,544,279   |
| <b>Deficiency of revenues<br/>over expenses</b>          | -                                | (8,171,810)  | (500,749)                 | (405,334)  | -            | (9,077,893)   |
| <b>Other changes in net assets</b>                       |                                  |  |                           |  |              |   |
| Net unrealized loss on<br>investments                    | -                                | (27,609)   | -                         | -  | -            | (27,609)  |
| Defined benefit pension<br>plan adjustment               | -                                | 3,948,901  | -                         | -  | -            | 3,948,901   |
| Change in fair value of<br>derivatives                   | -                                | -  | 35,602                    | -  | -            | 35,602  |
| <b>Decrease in<br/>unrestricted net<br/>assets</b>       | \$ -                             | \$ (4,250,518)                                     | \$ (465,147)              | \$ (405,334)   | \$ -         | \$ (5,120,999)  |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended September 30, 2010

|   | Thomas<br>Health<br>System, Inc. | Thomas<br>Memorial<br>Hospital and<br>Subsidiaries | Saint Francis<br>Hospital | Eliminations | Thomas<br>Health<br>System<br>Consolidated<br>Balance |
|---|----------------------------------|--|---------------------------|--------------|---|
| <b>Unrestricted revenue, gains<br/>and other support</b>      |                                  |  |                           |              |   |
| Net patient service revenue                                   | \$ -                             | \$ 153,425,681                                     | \$ 103,706,229            | \$ -         | \$ 257,131,910  |
| Investment income   | -                                | 619,721  | 22,193                    | -            | 641,914   |
| Rental income   | -                                | 1,647,746  | 666,192                   | -            | 2,313,938   |
| Other revenue   | -                                | 1,868,826  | 653,627                   | -            | 2,522,453   |
| Grant income  | -                                | 21,004   | 849,499                   | -            | 870,503   |
| Public support – donations                                    | -                                | 1,378,664  | -                         | -            | 1,378,664   |
| <b>Total revenue, gains<br/>and other support</b>             | -                                | 158,961,642  | 105,897,740               | -            | 264,859,382   |
| <b>Expenses</b>   |                                  |  |                           |              |   |
| Salaries and wages  | -                                | 53,308,230   | 29,140,396                | -            | 82,448,626  |
| Employee benefits   | -                                | 17,657,794   | 7,710,823                 | -            | 25,368,617  |
| Supplies and other  | -                                | 47,130,549   | 37,170,118                | -            | 84,300,667  |
| Provision for doubtful<br>accounts                            | -                                | 13,451,609   | 7,044,647                 | -            | 20,496,256  |
| Purchased services  | -                                | 14,773,354   | 10,377,316                | -            | 25,150,670  |
| Depreciation and<br>amortization                              | -                                | 10,739,659   | 4,261,581                 | -            | 15,001,240  |
| West Virginia provider tax                                    | -                                | 2,903,364  | 2,222,577                 | -            | 5,125,941   |
| Interest  | -                                | 1,977,639  | 3,809,071                 | -            | 5,786,710   |
| Insurance   | -                                | 2,076,756  | 579,779                   | -            | 2,656,535   |
| <b>Total expenses</b>   | -                                | 164,018,954  | 102,316,308               | -            | 266,335,262   |
| <b>Excess (deficiency)<br/>of revenues<br/>over expenses</b>  | -                                | (5,057,312)  | 3,581,432                 | -            | (1,475,880)   |
| <b>Other changes in net assets</b>                            |                                  |  |                           |              |   |
| Net unrealized gain on<br>investments                         | -                                | 1,250,687  | -                         | -            | 1,250,687   |
| Defined benefit pension<br>plan adjustment                    | -                                | (1,827,128)  | -                         | -            | (1,827,128)   |
| Change in fair value of<br>derivatives                        | -                                | -  | (151,303)                 | -            | (151,303)   |
| <b>Increase (decrease) in<br/>unrestricted net<br/>assets</b> | \$ -                             | \$ (5,633,753)                                     | \$ 3,430,129              | \$ -         | \$ (2,203,624)  |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS

Year Ended September 30, 2011

|  | Thomas<br>Health<br>System, Inc. | Thomas<br>Memorial<br>Hospital and<br>Subsidiaries | Saint Francis<br>Hospital | Foundation<br>For the<br>Thomas<br>Memorial and<br>St. Francis<br>Hospitals Inc. | Eliminations | Thomas<br>Health<br>System<br>Consolidated<br>Balance |
|--|----------------------------------|--|---------------------------|--|--------------|---|
| <b>Unrestricted net assets</b>   |                                  |  |                           |  |              |   |
| Deficiency of revenues<br>over expenses  | \$ -                             | \$ (8,171,810)                                     | \$ (500,749)              | \$ (405,334)   | \$ -         | \$ (9,077,893)  |
| Net unrealized loss<br>on investments  | -                                | (27,609)   | -                         | -  | -            | (27,609)  |
| Defined benefit pension<br>plan adjustment   | -                                | 3,948,901  | -                         | -  | -            | 3,948,901   |
| Changes in fair value of<br>derivatives  | -                                | -  | 35,602                    | -  | -            | 35,602  |
| <b>Decrease in<br/>unrestricted net<br/>assets</b>   | -                                | (4,250,518)  | (465,147)                 | (405,334)  | -            | (5,120,999)   |
| <b>Temporarily restricted<br/>net assets</b>   |                                  |  |                           |  |              |   |
| Public support – donations   | -                                | -  | -                         | 52,686   | -            | 52,686  |
| Investment income  | -                                | -  | -                         | -  | -            | -   |
| Net assets released from<br>restriction  | -                                | -  | -                         | (571,904)  | -            | (571,904)   |
| <b>Decrease in temporarily<br/>restricted net assets</b>                                     | -                                | -  | -                         | (519,218)  | -            | (519,218)   |
| <b>Permanently restricted<br/>net assets</b>   |                                  |  |                           |  |              |   |
| Public support – donations   | -                                | -  | -                         | 7,655  | -            | 7,655   |
| <b>Increase in permanently<br/>restricted net assets</b>                                     | -                                | -  | -                         | 7,655  | -            | 7,655   |
| <b>Decrease in net<br/>assets</b>  | -                                | (4,250,518)  | (465,147)                 | (916,897)  | -            | (5,632,562)   |
| <b>Net assets, beginning<br/>of year</b>   | -                                | 72,120,805   | 3,362,929                 | -  | -            | 75,483,734  |
| <b>Reclassification of net<br/>assets – Transfer<br/>control of TMH<br/>Foundation, Inc.</b> | -                                | (5,757,392)  | -                         | 5,757,392  | -            | -   |
| <b>Net assets, end of year</b>   | \$ -                             | \$ 62,112,895                                      | \$ 2,897,782              | \$ 4,840,495   | \$ -         | \$ 69,851,172   |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS

Year Ended September 30, 2010

|   | Thomas<br>Health<br>System, Inc. | Thomas<br>Memorial<br>Hospital and<br>Subsidiaries | Saint Francis<br>Hospital | Eliminations | Thomas<br>Health<br>System<br>Consolidated<br>Balance |
|---|----------------------------------|--|---------------------------|--------------|---|
| <b>Unrestricted net assets</b>                                |                                  |  |                           |              |   |
| Excess (deficiency) of<br>revenues over expenses              | \$ -                             | \$ (5,057,312)                                     | \$ 3,581,432              | \$ -         | \$ (1,475,880)  |
| Net unrealized gain<br>on investments                         | -                                | 1,250,687  | -                         | -            | 1,250,687   |
| Defined benefit pension<br>plan adjustment                    | -                                | (1,827,128)  | -                         | -            | (1,827,128)   |
| Changes in fair value of<br>derivatives                       | -                                | -  | (151,303)                 | -            | (151,303)   |
| <b>Increase (decrease) in<br/>unrestricted net<br/>assets</b> | -                                | (5,633,753)  | 3,430,129                 | -            | (2,203,624)   |
| <b>Temporarily restricted<br/>net assets</b>                  |                                  |  |                           |              |   |
| Public support – donations                                    | -                                | 9,405  | -                         | -            | 9,405   |
| Investment income   | -                                | 36,202   | -                         | -            | 36,202  |
| Net assets released from<br>restriction                       | -                                | (414,111)  | -                         | -            | (414,111)   |
| <b>Decrease in temporarily<br/>restricted net assets</b>      | -                                | (368,504)  | -                         | -            | (368,504)   |
| <b>Permanently restricted<br/>net assets</b>                  |                                  |  |                           |              |   |
| Public support – donations                                    | -                                | 150,600  | -                         | -            | 150,600   |
| <b>Increase in permanently<br/>restricted net assets</b>      | -                                | 150,600  | -                         | -            | 150,600   |
| <b>Increase (decrease) in net<br/>assets</b>                  | -                                | (5,851,657)  | 3,430,129                 | -            | (2,421,528)   |
| <b>Net assets, beginning<br/>of year</b>                      | -                                | 77,972,462   | (67,200)                  | -            | 77,905,262  |
| <b>Net assets, end of year</b>                                | \$ -                             | \$ 72,120,805                                      | \$ 3,362,929              | \$ -         | \$ 75,483,734   |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET

September 30, 2011

|  | Thomas<br>Memorial<br>Hospital | TMH<br>Services<br>Inc. | Eliminations        | Thomas<br>Memorial<br>Hospital<br>Consolidated<br>Balance |
|--|--------------------------------|-------------------------|---------------------|---|
| <b>ASSETS</b>  |                                |                         |                     |   |
| <b>Current Assets</b>  |                                |                         |                     |   |
| Cash and cash equivalents  | \$ 10,281,800                  | \$ 381,814              | \$ -                | \$ 10,663,614   |
| Investments  | -                              | 256,242                 | -                   | 256,242   |
| Assets limited as to use   | 13,421,160                     | -                       | -                   | 13,421,160  |
| Patient accounts receivable, net of allowance<br>for doubtful accounts | 15,456,544                     | -                       | -                   | 15,456,544  |
| Supplies inventories   | 3,125,418                      | -                       | -                   | 3,125,418   |
| Prepaid and other current assets                                       | 1,320,038                      | 12,509                  | -                   | 1,332,547   |
| <b>Total current assets</b>  | <b>43,604,960</b>              | <b>650,565</b>          | <b>-</b>            | <b>44,255,525</b>   |
| <b>Assets limited as to use, net</b>                                   | <b>36,707,338</b>              | <b>-</b>                | <b>-</b>            | <b>36,707,338</b>   |
| <b>Property and equipment, net</b>                                     | <b>139,252,427</b>             | <b>4,139,142</b>        | <b>-</b>            | <b>143,391,569</b>  |
| <b>Other Assets</b>  |                                |                         |                     |   |
| Investments  | -                              | 27,337                  | -                   | 27,337  |
| Deferred financing costs, net  | 2,053,736                      | -                       | -                   | 2,053,736   |
| Pledges receivable, net  | -                              | -                       | -                   | -   |
| Other  | 568,497                        | -                       | (240,898)           | 327,599   |
|  | <b>2,622,233</b>               | <b>27,337</b>           | <b>(240,898)</b>    | <b>2,408,672</b>  |
| <b>Total assets</b>  | <b>\$ 222,186,958</b>          | <b>\$ 4,817,044</b>     | <b>\$ (240,898)</b> | <b>\$ 226,763,104</b>                                     |
| <b>LIABILITIES AND NET ASSETS</b>                                      |                                |                         |                     |   |
| <b>Current Liabilities</b>   |                                |                         |                     |   |
| Current portion of long-term debt                                      | \$ 895,218                     | \$ 122,896              | \$ -                | \$ 1,018,114  |
| Accounts payable and accrued expenses                                  | 11,348,808                     | 97,068                  | -                   | 11,445,876  |
| Accrued salaries and benefits  | 5,502,568                      | -                       | -                   | 5,502,568   |
| Accrued self-insurance liability                                       | 2,627,322                      | -                       | -                   | 2,627,322   |
| Estimated third-party payor settlements                                | 1,766,331                      | -                       | -                   | 1,766,331   |
| <b>Total current liabilities</b>                                       | <b>22,140,247</b>              | <b>219,964</b>          | <b>-</b>            | <b>22,360,211</b>   |
| <b>Accrued pension and post- retirement benefits</b>                   | <b>29,146,013</b>              | <b>-</b>                | <b>-</b>            | <b>29,146,013</b>   |
| <b>Accrued self-insurance liability</b>                                | <b>7,659,678</b>               | <b>-</b>                | <b>-</b>            | <b>7,659,678</b>  |
| <b>Long-term debt, net of current portion</b>                          | <b>101,689,388</b>             | <b>3,794,919</b>        | <b>-</b>            | <b>105,484,307</b>  |
| <b>Total liabilities</b>   | <b>160,635,326</b>             | <b>4,014,883</b>        | <b>-</b>            | <b>164,650,209</b>  |
| <b>Net assets</b>  |                                |                         |                     |   |
| Unrestricted   | 61,551,632                     | 802,161                 | (240,898)           | 62,112,895  |
| Temporarily restricted   | -                              | -                       | -                   | -   |
| Permanently restricted   | -                              | -                       | -                   | -   |
| <b>Total net assets</b>  | <b>61,551,632</b>              | <b>802,161</b>          | <b>(240,898)</b>    | <b>62,112,895</b>   |
| <b>Total liabilities and net assets</b>                                | <b>\$ 222,186,958</b>          | <b>\$ 4,817,044</b>     | <b>\$ (240,898)</b> | <b>\$ 226,763,104</b>                                     |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET

September 30, 2010

|   | Thomas<br>Memorial<br>Hospital | TMH<br>Services<br>Inc. | TMH<br>Foundation   | Eliminations        | Thomas<br>Memorial<br>Hospital<br>Consolidated<br>Balance |
|---|--------------------------------|-------------------------|---------------------|---------------------|---|
| <b>ASSETS</b>   |                                |                         |                     |                     |   |
| <b>Current Assets</b>   |                                |                         |                     |                     |   |
| Cash and cash equivalents   | \$ 10,954,076                  | \$ 378,764              | \$ 349,027          | \$ -                | \$ 11,681,867   |
| Investments   | -                              | 253,089                 | -                   | -                   | 253,089   |
| Assets limited as to use  | 11,248,838                     | -                       | -                   | -                   | 11,248,838  |
| Patient accounts receivable,<br>net of allowance for<br>doubtful accounts | 14,689,798                     | -                       | -                   | -                   | 14,689,798  |
| Supplies inventories  | 3,315,192                      | -                       | -                   | -                   | 3,315,192   |
| Prepaid and other current<br>assets                                       | 1,085,259                      | 29,936                  | 507,049             | (34,725)            | 1,587,519   |
| <b>Total current assets</b>   | <b>41,293,163</b>              | <b>661,789</b>          | <b>856,076</b>      | <b>(34,725)</b>     | <b>42,776,303</b>   |
| <b>Assets limited as to use, net</b>                                      | <b>38,194,440</b>              | <b>-</b>                | <b>3,373,639</b>    | <b>-</b>            | <b>41,568,079</b>   |
| <b>Property and equipment, net</b>  | <b>146,343,378</b>             | <b>3,694,495</b>        | <b>830</b>          | <b>-</b>            | <b>150,038,703</b>  |
| <b>Other Assets</b>   |                                |                         |                     |                     |   |
| Investments   | -                              | 13,895                  | -                   | -                   | 13,895  |
| Deferred financing costs, net   | 2,146,636                      | -                       | -                   | -                   | 2,146,636   |
| Pledges receivable, net   | -                              | -                       | 1,548,141           | -                   | 1,548,141   |
| Other   | 563,698                        | -                       | -                   | (240,898)           | 322,800   |
|   | <u>2,710,334</u>               | <u>13,895</u>           | <u>1,548,141</u>    | <u>(240,898)</u>    | <u>4,031,472</u>  |
| <b>Total assets</b>   | <b>\$ 228,541,315</b>          | <b>\$ 4,370,179</b>     | <b>\$ 5,778,686</b> | <b>\$ (275,623)</b> | <b>\$ 238,414,557</b>                                     |
| <b>LIABILITIES AND NET ASSETS</b>   |                                |                         |                     |                     |   |
| <b>Current Liabilities</b>  |                                |                         |                     |                     |   |
| Current portion of long-term<br>debt                                      | \$ 303,389                     | \$ 142,302              | \$ -                | \$ -                | \$ 445,691  |
| Accounts payable and<br>accrued expenses                                  | 11,326,744                     | 142,832                 | 21,294              | (34,725)            | 11,456,145  |
| Accrued salaries and benefits   | 5,031,406                      | -                       | -                   | -                   | 5,031,406   |
| Accrued self-insurance<br>liability                                       | 1,595,000                      | -                       | -                   | -                   | 1,595,000   |
| Estimated third-party<br>payor settlements                                | 1,309,592                      | -                       | -                   | -                   | 1,309,592   |
| <b>Total current liabilities</b>  | <b>19,566,131</b>              | <b>285,134</b>          | <b>21,294</b>       | <b>(34,725)</b>     | <b>19,837,834</b>   |
| <b>Accrued pension and post-<br/>retirement benefits</b>                  | <b>32,835,374</b>              | <b>-</b>                | <b>-</b>            | <b>-</b>            | <b>32,835,374</b>   |
| <b>Accrued self-insurance<br/>liability</b>                               | <b>7,780,000</b>               | <b>-</b>                | <b>-</b>            | <b>-</b>            | <b>7,780,000</b>  |
| <b>Long-term debt, net of<br/>current portion</b>                         | <b>102,475,233</b>             | <b>3,365,311</b>        | <b>-</b>            | <b>-</b>            | <b>105,840,544</b>  |
| <b>Total liabilities</b>  | <b>162,656,738</b>             | <b>3,650,445</b>        | <b>21,294</b>       | <b>(34,725)</b>     | <b>166,293,752</b>  |
| <b>Net assets</b>   |                                |                         |                     |                     |   |
| Unrestricted  | 65,884,577                     | 719,734                 | 2,602,711           | (240,898)           | 68,966,124  |
| Temporarily restricted  | -                              | -                       | 2,105,238           | -                   | 2,105,238   |
| Permanently restricted  | -                              | -                       | 1,049,443           | -                   | 1,049,443   |
| <b>Total net assets</b>   | <b>65,884,577</b>              | <b>719,734</b>          | <b>5,757,392</b>    | <b>(240,898)</b>    | <b>72,120,805</b>   |
| <b>Total liabilities and<br/>net assets</b>                               | <b>\$ 228,541,315</b>          | <b>\$ 4,370,179</b>     | <b>\$ 5,778,686</b> | <b>\$ (275,623)</b> | <b>\$ 238,414,557</b>                                     |



## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended September 30, 2011

|   | Thomas<br>Memorial<br>Hospital | TMH<br>Services<br>Inc. | Eliminations    | Thomas<br>Memorial<br>Hospital<br>Consolidated<br>Balance |
|---|--------------------------------|-------------------------|-----------------|---|
| <b>Unrestricted revenue, gains and other support</b>      |                                |                         |                 |   |
| Net patient service revenue                               | \$ 153,251,120                 | \$ -                    | \$ -            | \$ 153,251,120  |
| Investment income   | 1,681,420                      | 37,323                  | -               | 1,718,743   |
| Rental income   | 1,663,206                      | -                       | -               | 1,663,206   |
| Other revenue   | 1,183,689                      | 995,237                 | (27,816)        | 2,151,110   |
| Grant income  | 21,126                         | -                       | -               | 21,126  |
| Public support – donations                                | 880,000                        | -                       | -               | 880,000   |
| <b>Total revenue, gains and other support</b>             | <b>158,680,561</b>             | <b>1,032,560</b>        | <b>(27,816)</b> | <b>159,685,305</b>  |
| <b>Expenses</b>   |                                |                         |                 |   |
| Salaries and wages  | 52,457,683                     | 80,888                  | -               | 52,538,571  |
| Employee benefits   | 17,091,080                     | -                       | -               | 17,091,080  |
| Supplies and other  | 44,275,628                     | 503,271                 | (1,265)         | 44,777,634  |
| Provision for doubtful accounts                           | 14,138,705                     | -                       | -               | 14,138,705  |
| Purchased services  | 15,818,949                     | 39,387                  | (26,551)        | 15,831,785  |
| Depreciation and amortization                             | 11,817,533                     | 98,104                  | -               | 11,915,637  |
| West Virginia provider tax                                | 2,864,533                      | -                       | -               | 2,864,533   |
| Interest  | 6,225,647                      | 217,620                 | -               | 6,443,267   |
| Insurance   | 2,245,040                      | 10,863                  | -               | 2,255,903   |
| <b>Total expenses</b>                                     | <b>166,934,798</b>             | <b>950,133</b>          | <b>(27,816)</b> | <b>167,857,115</b>  |
| <b>Excess (deficiency) of revenues<br/>over expenses</b>  | <b>(8,254,237)</b>             | <b>82,427</b>           | <b>-</b>        | <b>(8,171,810)</b>  |
| <b>Other changes in net assets</b>                        |                                |                         |                 |   |
| Net unrealized loss on investments                        | (27,609)                       | -                       | -               | (27,609)  |
| Defined benefit pension plan adjustment                   | 3,948,901                      | -                       | -               | 3,948,901   |
| <b>Increase (decrease) in unrestricted<br/>net assets</b> | <b>\$ (4,332,945)</b>          | <b>\$ 82,427</b>        | <b>\$ -</b>     | <b>\$ (4,250,518)</b>                                     |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended September 30, 2010

|  | Thomas<br>Memorial<br>Hospital | TMH<br>Services<br>Inc. | TMH<br>Foundation | Eliminations     | Thomas<br>Memorial<br>Hospital<br>Consolidated<br>Balance |
|--|--------------------------------|-------------------------|-------------------|------------------|---|
| <b>Unrestricted revenue, gains<br/>and other support</b> |                                |                         |                   |                  |   |
| Net patient service revenue                              | \$ 153,425,681                 | \$ -                    | \$ -              | \$ -             | \$ 153,425,681  |
| Investment income (loss)                                 | 585,990                        | (50,741)                | 84,472            | -                | 619,721   |
| Rental income  | 1,658,048                      | -                       | -                 | (10,302)         | 1,647,746   |
| Other revenue  | 1,088,992                      | 1,042,473               | -                 | (262,639)        | 1,868,826   |
| Grant income   | 21,004                         | -                       | -                 | -                | 21,004  |
| Public support – donations                               | 697,000                        | -                       | 683,399           | (1,735)          | 1,378,664   |
| <b>Total revenue, gains<br/>and other support</b>        | <b>157,476,715</b>             | <b>991,732</b>          | <b>767,871</b>    | <b>(274,676)</b> | <b>158,961,642</b>  |
| <b>Expenses</b>  |                                |                         |                   |                  |   |
| Salaries and wages                                       | 53,229,473                     | 78,757                  | -                 | -                | 53,308,230  |
| Employee benefits  | 17,657,794                     | -                       | -                 | -                | 17,657,794  |
| Supplies and other                                       | 45,733,400                     | 872,085                 | 771,132           | (246,068)        | 47,130,549  |
| Provision for doubtful<br>accounts                       | 13,451,609                     | -                       | -                 | -                | 13,451,609  |
| Purchased services                                       | 14,779,692                     | 22,270                  | -                 | (28,608)         | 14,773,354  |
| Depreciation and amortization                            | 10,644,864                     | 94,642                  | 153               | -                | 10,739,659  |
| West Virginia provider tax                               | 2,903,364                      | -                       | -                 | -                | 2,903,364   |
| Interest   | 1,977,639                      | -                       | -                 | -                | 1,977,639   |
| Insurance  | 2,076,756                      | -                       | -                 | -                | 2,076,756   |
| <b>Total expenses</b>                                    | <b>162,454,591</b>             | <b>1,067,754</b>        | <b>771,285</b>    | <b>(274,676)</b> | <b>164,018,954</b>  |
| <b>Deficiency of revenues<br/>over expenses</b>          | <b>(4,977,876)</b>             | <b>(76,022)</b>         | <b>(3,414)</b>    | <b>-</b>         | <b>(5,057,312)</b>  |
| <b>Other changes in net assets</b>                       |                                |                         |                   |                  |   |
| Net unrealized gain on<br>investments                    | 1,250,687                      | -                       | -                 | -                | 1,250,687   |
| Defined benefit pension<br>plan adjustment               | (1,827,128)                    | -                       | -                 | -                | (1,827,128)   |
| <b>Decrease in unrestricted<br/>net assets</b>           | <b>\$ (5,554,317)</b>          | <b>\$ (76,022)</b>      | <b>\$ (3,414)</b> | <b>\$ -</b>      | <b>\$ (5,633,753)</b>                                     |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS

Year Ended September 30, 2011

|  | Thomas<br>Memorial<br>Hospital | TMH<br>Services<br>Inc. | TMH<br>Foundation  | Eliminations        | Thomas<br>Memorial<br>Hospital<br>Consolidated<br>Balance |
|--|--------------------------------|-------------------------|--------------------|---------------------|---|
| <b>Unrestricted net assets</b>   |                                |                         |                    |                     |   |
| Excess (deficiency) of revenues over expenses  | \$ (8,254,237)                 | \$ 82,427               | \$ -               | \$ -                | \$ (8,171,810)  |
| Net unrealized loss on investments   | (27,609)                       | -                       | -                  | -                   | (27,609)  |
| Defined benefit pension plan adjustment  | 3,948,901                      | -                       | -                  | -                   | 3,948,901   |
| <b>Increase (decrease) in unrestricted net assets</b>                                | <b>(4,332,945)</b>             | <b>82,427</b>           | <b>-</b>           | <b>-</b>            | <b>(4,250,518)</b>  |
| <b>Temporarily restricted net assets</b>   |                                |                         |                    |                     |   |
| Public support – donations   | -                              | -                       | -                  | -                   | -   |
| Investment income  | -                              | -                       | -                  | -                   | -   |
| Net assets released from restriction   | -                              | -                       | -                  | -                   | -   |
| <b>Decrease in temporarily restricted net assets</b>                                 | <b>-</b>                       | <b>-</b>                | <b>-</b>           | <b>-</b>            | <b>-</b>  |
| <b>Permanently restricted net assets</b>   |                                |                         |                    |                     |   |
| Public support – donations   | -                              | -                       | -                  | -                   | -   |
| <b>Increase in permanently restricted net assets</b>                                 | <b>-</b>                       | <b>-</b>                | <b>-</b>           | <b>-</b>            | <b>-</b>  |
| <b>Increase (decrease) in net assets</b>   | <b>(4,332,945)</b>             | <b>82,427</b>           | <b>-</b>           | <b>-</b>            | <b>(4,250,518)</b>  |
| <b>Net assets, beginning of year</b>   | <b>65,884,577</b>              | <b>719,734</b>          | <b>5,757,392</b>   | <b>(240,898)</b>    | <b>72,120,805</b>   |
| <b>Reclassification of net assets -<br/>Transfer control of TMH Foundation, Inc.</b> | <b>-</b>                       | <b>-</b>                | <b>(5,757,392)</b> | <b>-</b>            | <b>(5,757,392)</b>  |
| <b>Net assets, end of year</b>   | <b>\$ 61,551,632</b>           | <b>\$ 802,161</b>       | <b>\$ -</b>        | <b>\$ (240,898)</b> | <b>\$ 62,112,895</b>                                      |

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS

Year Ended September 30, 2010

|  | Thomas<br>Memorial<br>Hospital | TMH<br>Services<br>Inc. | TMH<br>Foundation   | Eliminations        | Thomas<br>Memorial<br>Hospital<br>Consolidated<br>Balance |
|--|--------------------------------|-------------------------|---------------------|---------------------|---|
| <b>Unrestricted net assets</b>                           |                                |                         |                     |                     |   |
| Deficiency of revenues<br>over expenses                  | \$ (4,977,876)                 | \$ (76,022)             | \$ (3,414)          | \$ -                | \$ (5,057,312)  |
| Net unrealized gain<br>on investments                    | 1,250,687                      | -                       | -                   | -                   | 1,250,687   |
| Defined benefit pension<br>plan adjustment               | (1,827,128)                    | -                       | -                   | -                   | (1,827,128)   |
| <b>Decrease in<br/>unrestricted net<br/>assets</b>       | <b>(5,554,317)</b>             | <b>(76,022)</b>         | <b>(3,414)</b>      | <b>-</b>            | <b>(5,633,753)</b>  |
| <b>Temporarily restricted<br/>net assets</b>             |                                |                         |                     |                     |   |
| Public support – donations                               | -                              | -                       | 9,405               | -                   | 9,405   |
| Investment income  | -                              | -                       | 36,202              | -                   | 36,202  |
| Net assets released from<br>restriction                  | -                              | -                       | (414,111)           | -                   | (414,111)   |
| <b>Decrease in temporarily<br/>restricted net assets</b> | <b>-</b>                       | <b>-</b>                | <b>(368,504)</b>    | <b>-</b>            | <b>(368,504)</b>  |
| <b>Permanently restricted<br/>net assets</b>             |                                |                         |                     |                     |   |
| Public support – donations                               | -                              | -                       | 150,600             | -                   | 150,600   |
| <b>Increase in permanently<br/>restricted net assets</b> | <b>-</b>                       | <b>-</b>                | <b>150,600</b>      | <b>-</b>            | <b>150,600</b>  |
| <b>Decrease in net assets</b>                            | <b>(5,554,317)</b>             | <b>(76,022)</b>         | <b>(221,318)</b>    | <b>-</b>            | <b>(5,851,657)</b>  |
| <b>Net assets, beginning of year</b>                     | <b>71,438,894</b>              | <b>795,756</b>          | <b>5,978,710</b>    | <b>(240,898)</b>    | <b>77,972,462</b>   |
| <b>Net assets, end of year</b>                           | <b>\$ 65,884,577</b>           | <b>\$ 719,734</b>       | <b>\$ 5,757,392</b> | <b>\$ (240,898)</b> | <b>\$ 72,120,805</b>                                      |