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Form **990**

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

▶ The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047

2011

Open to Public Inspection

A For the 2011 calendar year, or tax year beginning 01-01-2011 and ending 12-31-2011

B Check if applicable
- ☐ Address change
- ☐ Name change
- ☐ Initial return
- ☐ Terminated
- ☐ Amended return
- ☐ Application pending

C Name of organization
GRACE HOSPITAL INC

Doing Business As

Number and street (or P O box if mail is not delivered to street address) | Room/suite
2201 SOUTH STERLING STREET

City or town, state or country, and ZIP + 4
MORGANTON, NC 28655

D Employer identification number
56-0529976

E Telephone number
(828) 580-5000

G Gross receipts $ 135,011,007

F Name and address of principal officer
KENNETH W WOOD
2201 SOUTH STERLING STREET
MORGANTON, NC 28655

H(a) Is this a group return for affiliates? ☐ Yes ☑ No

H(b) Are all affiliates included? ☐ Yes ☐ No
If "No," attach a list (see instructions)

H(c) Group exemption number ▶

I Tax-exempt status ☑ 501(c)(3) ☐ 501(c) ( ) ◀ (insert no) ☐ 4947(a)(1) or ☐ 527

J Website: ▶ WWW BLUERIDGEHEALTH ORG

K Form of organization ☑ Corporation ☐ Trust ☐ Association ☐ Other ▶ | **L** Year of formation 1906 | **M** State of legal domicile NC

Part I Summary

1 Briefly describe the organization's mission or most significant activities
IMPROVING THE HEALTH OF OUR COMMUNITIES BY PROVIDING EXCELLENT AND COMPASSIONATE CARE

2 Check this box ▶☐ 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**	15
4	Number of independent voting members of the governing body (Part VI, line 1b)	**4**	13
5	Total number of individuals employed in calendar year 2011 (Part V, line 2a)	**5**	1,138
6	Total number of volunteers (estimate if necessary)	**6**	83
7a	Total unrelated business revenue from Part VIII, column (C), line 12	**7a**	1,503,458
b	Net unrelated business taxable income from Form 990-T, line 34	**7b**	0

		Prior Year	Current Year
Revenue	**8** Contributions and grants (Part VIII, line 1h)	588,840	575,389
	9 Program service revenue (Part VIII, line 2g)	106,468,654	112,599,210
	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	3,501,698	6,001,070
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	2,759,811	1,946,499
	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	113,319,003	121,122,168
Expenses	**13** Grants and similar amounts paid (Part IX, column (A), lines 1–3)	273,479	234,702
	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)	43,680,548	48,039,667
	16a Professional fundraising fees (Part IX, column (A), line 11e)	0	0
	b Total fundraising expenses (Part IX, column (D), line 25) ▶0		
	17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	65,221,334	67,302,953
	18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	109,175,361	115,577,322
	19 Revenue less expenses Subtract line 18 from line 12	4,143,642	5,544,846

		Beginning of Current Year	End of Year
Net Assets or Fund Balances	**20** Total assets (Part X, line 16)	198,574,101	196,282,646
	21 Total liabilities (Part X, line 26)	69,545,712	67,311,417
	22 Net assets or fund balances Subtract line 21 from line 20	129,028,389	128,971,229

Part II Signature Block

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.

Sign Here

****** 2012-11-06
Signature of officer — Date

ROBERT G FRITTS SENIOR VP FINANCE/CFO
Type or print name and title

Paid Preparer's Use Only

Preparer's signature: GREGORY W JOHNS | Date | Check if self-employed ☐ | Preparer's taxpayer identification number (see instructions) P00535091

Firm's name (or yours if self-employed), address, and ZIP + 4: CLIFTONLARSONALLEN LLP, 101 N TRYON STREET SUITE 1000, CHARLOTTE, NC 28246 | EIN ▶ 41-0746749 | Phone no ▶ (704) 998-5200

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

GRACE HOSPITAL IS COMMITTED TO IMPROVING THE HEALTH OF OUR COMMUNITIES BY PROVIDING EXCELLENT AND COMPASSIONATE CARE

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 organization's program service accomplishments for each of its three largest program services, as measured 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 $ 17,284,211 including grants of $ 234,702) (Revenue $ 15,072,205)

GRACE HOSPITAL PROVIDED 23,517 DAYS OF CARE TO 5,935 PATIENTS ADMITTED GRACE HOSPITAL HAS 184 BEDS AND OFFERS A BROAD SCOPE OF SERVICES

4b (Code) (Expenses $ 13,356,706 including grants of $) (Revenue $ 25,191,591)

GRACE HOSPITAL'S SURGICAL SERVICES PERFORMED 1,327 INPATIENT SURGERIES AND 3,524 OUTPATIENT SURGERIES ORTHOPEDICS, GENERAL SURGERY, SPINE SURGERY, AND OB/GYN ARE THE MAJOR SURGICAL SPECIALITIES OFFERED

4c (Code) (Expenses $ 5,381,054 including grants of $) (Revenue $ 14,759,869)

EMERGENCY ROOM SAW 39,131 PATIENTS DURING THE YEAR THE ED IS OPEN 24 HOURS A DAY, 7 DAYS A WEEK AND IS ABLE TO TAKE CARE OF ANY TYPE OF EMERGENCY OR PROBLEM

(Code) (Expenses $ 59,986,760 including grants of $) (Revenue $ 55,988,429)

OTHER PROGRAMS

4d Other program services (Describe in Schedule O)

(Expenses $ 59,986,760 including grants of $) (Revenue $ 55,988,429)

4e **Total program service expenses** ▶ $ 96,008,731

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 instructions)?	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	**Section 501(c)(3) organizations.** 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		No
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which 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 temporarily restricted endowments, permanent endowments, 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, line10? *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	Yes	
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	Yes	
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	Yes	
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, investment, and program service activities outside the United States, or aggregate foreign investments valued at $100,000 or more? *If "Yes," complete Schedule F, Part I*	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, Part 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, Part 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*	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? **Note.** All Form 990 filers that operated one or more hospitals must attach audited financial statements	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? *If "Yes," complete Schedule I, Parts I and II*	**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? *If "Yes," complete Schedule I, Parts I and III*	**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? *If "Yes," complete Schedule J*	**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? *If "Yes," answer questions 24b–24d and complete Schedule K. If "No," go to line 25*	**24a**		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	**24b**		
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**		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	**24d**		
25a	**Section 501(c)(3) and 501(c)(4) organizations.** Did the organization engage in an excess benefit transaction with a disqualified person during the year? *If "Yes," complete Schedule L, Part 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? *If "Yes," complete Schedule L, Part 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? *If "Yes," complete Schedule L, Part II*	**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? *If "Yes," complete Schedule L, Part III*	**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? *If "Yes," complete Schedule L, Part IV*	**28a**		No
b	A family member of a current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	**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 owner? *If "Yes," complete Schedule L, Part IV*	**28c**	Yes	
29	Did the organization receive more than $25,000 in non-cash contributions? *If "Yes," complete Schedule M*	**29**		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? *If "Yes," complete Schedule M*	**30**		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? *If "Yes," complete Schedule N, Part I*	**31**		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? *If "Yes," complete Schedule N, Part II*	**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? *If "Yes," complete Schedule R, Part I*	**33**		No
34	Was the organization related to any tax-exempt or taxable entity? *If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1*	**34**	Yes	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	**35a**		No
b	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? *If "Yes," complete Schedule R, Part V, line 2*	**35b**		No
36	**Section 501(c)(3) organizations.** Did the organization make any transfers to an exempt non-charitable related organization? *If "Yes," complete Schedule R, Part V, line 2*	**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? *If "Yes," complete Schedule R, Part VI*	**37**		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? **Note.** All Form 990 filers are required to complete Schedule O	**38**	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance

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

				Yes	No
1a	Enter the number reported in Box 3 of Form 1096 Enter -0- if not applicable	**1a**	1		
b	Enter the number of Forms W-2G included in line 1a *Enter -0-* if not applicable	**1b**	0		
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?			**1c**		
2a	Enter the number of employees reported on Form W-3, *Transmittal of Wage and Tax Statements* filed for the calendar year ending with or within the year covered by this return	**2a**	1,138		
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns?			**2b**	Yes	
	Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)					
3a	Did the organization have unrelated business gross income of $1,000 or more during the year?			**3a**	Yes	
b	If "Yes," has it filed a Form 990-T for this year? *If "No," provide an explanation in Schedule O*			**3b**	Yes	
4a	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 or securities account)?			**4a**		No
b	If "Yes," enter the name of the foreign country ▶ _____ See instructions for filing requirements for Form TD F 90-22 1, Report of Foreign Bank and Financial Accounts					
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year? . .			**5a**		No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?			**5b**		No
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?			**5c**		
6a	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?			**6a**		No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?			**6b**		
7	**Organizations that may receive deductible contributions under section 170(c).**					
a	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?			**7a**		No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?			**7b**		
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?			**7c**		No
d	If "Yes," indicate the number of Forms 8282 filed during the year	**7d**				
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?			**7e**		No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? . .			**7f**		No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?			**7g**		
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?			**7h**		
8	**Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.** Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?			**8**		
9	**Sponsoring organizations maintaining donor advised funds.**					
a	Did the organization make any taxable distributions under section 4966?			**9a**		
b	Did the organization make a distribution to a donor, donor advisor, or related person?			**9b**		
10	**Section 501(c)(7) organizations.** Enter					
a	Initiation fees and capital contributions included on Part VIII, line 12 . . .	**10a**				
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	**10b**				
11	**Section 501(c)(12) organizations.** Enter					
a	Gross income from members or shareholders	**11a**				
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them)	**11b**				
12a	**Section 4947(a)(1) non-exempt charitable trusts.** Is the organization filing Form 990 in lieu of Form 1041?			**12a**		
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year	**12b**				
13	**Section 501(c)(29) qualified nonprofit health insurance issuers.**					
a	Is the organization licensed to issue qualified health plans in more than one state? **Note.** All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state			**13a**		
b	Enter the aggregate amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	**13b**				
c	Enter the aggregate amount of reserves on hand	**13c**				
14a	Did the organization receive any payments for indoor tanning services during the tax year?			**14a**		No
b	If "Yes," has it filed a Form 720 to report these payments? *If "No," provide an explanation in Schedule O* . .			**14b**		

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	1a	15		
b	Enter the number of voting members included in line 1a, above, who are independent	1b	13		
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	Yes	
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	Did the organization have members or stockholders?		6		No
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?		7a		No
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?		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	Did the organization have local chapters, branches, or affiliates?	10a	Yes	
b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?	10b	Yes	
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	11a	Yes	
b	Describe in Schedule O the process, if any, used by the organization to review the Form 990			
12a	Did the organization have a written conflict of interest policy? *If "No," go to line 13*	12a	Yes	
b	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes	
c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	12c	Yes	
13	Did the organization have a written whistleblower policy?	13	Yes	
14	Did 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	Yes	
b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?	16b	Yes	

Section C. Disclosure

17 List the States with which a copy of this Form 990 is required to be filed ▶ NC

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 made these available Check all that apply

☐ Own website ☐ Another's website ☑ Upon request

19 Describe in Schedule O whether (and if so, how), the organization made 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 ▶

PATRICIA MOLL
2201 SOUTH STERLING STREET
MORGANTON,NC 28655
(828)580-5000

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, or 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 organizations compensated any current or former officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W- 2/1099-MISC)	(F) 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) KENNETH W WOOD PRESIDENT / CEO	50 00	X		X				0	0	0
(2) J MICHAEL BRIDGES CHAIRMAN	1 00	X						0	0	0
(3) MH MCCRARY VICE CHAIRMAN	1 00	X						0	0	0
(4) JAMES ROSTAN SECRETARY	1 00	X						0	0	0
(5) JEFF CARSWELL TREASURER	1 00	X						0	0	0
(6) PHILIP TATE BOARD MEMBER	1 00	X						0	0	0
(7) CLAY RICHARDSON MD BOARD MEMBER	1 00	X						0	0	0
(8) KENNETH BONFIELD MD BOARD MEMBER	1 00	X						0	1,104	0
(9) S ANDREWS DEEKENS MD BOARD MEMBER	1 00	X						0	0	0
(10) LISA BUFF BOARD MEMBER	1 00	X						0	0	0
(11) JOHN BRANSTROM BOARD MEMBER	1 00	X						0	0	0
(12) DORIS FULLWOOD BOARD MEMBER	1 00	X						0	0	0
(13) SHERROD SALSBURY III BOARD MEMBER	1 00	X						0	0	0
(14) ALAN GRIFFIN BOARD MEMBER	1 00	X						0	0	0
(15) ALLEN VANNOPPEN BOARD MEMBER	1 00	X						0	0	0
(16) CHARLES RICE BOARD MEMBER	1 00	X						0	0	0
(17) ROBERT G FRITTS SENIOR VP FINANCE/CFO	50 00			X				0	0	0

Part VII **Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees** (continued)

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(18) KATHY BAILEY EXECUTIVE VP/COO	50 00			X				0	0	0
(19) LAURA LAMBETH PRESIDENT	50 00				X			247,376	0	25,197
(20) THOMAS EURE CORPORATE COMPLIANCE OFFIC	40 00					X		198,767	0	35,294
(21) ANTHONY FRASCA MD PSYCHIATRIST	40 00					X		272,209	0	22,659
(22) BYRON STROTHER MD PSYCHIATRIST	40 00					X		267,334	0	32,322
(23) JOSEPH MAZZOLA MD SR VICE-PRESIDENT	40 00					X		262,548	0	24,432

1b	**Sub-Total** . . . . . ▶			
c	**Total from continuation sheets to Part VII, Section A** . . . . ▶			
d	**Total (add lines 1b and 1c)** . . . . . ▶	1,248,234	1,104	139,904

2 Total number of individuals (including but not limited to those listed above) who received more than $100,000 of reportable compensation from the organization ▶ 20

			Yes	No
3	Did the organization list any **former** officer, director or trustee, key employee, or highest compensated employee on line 1a? *If "Yes," complete Schedule J for such individual*	**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? *If "Yes," complete Schedule J for such individual*	**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? *If "Yes," complete Schedule J for such person*	**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 Report compensation for the calendar year ending with or within the organization's tax year

(A) Name and business address	(B) Description of services	(C) Compensation
NURSE ANESTHESIA OF NORTH CAROLINA PO BOX 6633 HIGH POINT, NC 28277	CRNA STAFFING	1,924,424
ARAMARK CTS 12483 COLLECTIONS CENTER DR CHICAGO, IL 60693	FACILITIES SERVICE MANAGEMENT	1,174,574
ENDURACARE THERAPY MANAGEMENT DEPT AT 952922 GEMINO HC ATLANTA, GA 31192	REHABILITATION THERAPY SERVICES	1,099,758
ARAMARK FACILITIES 22506 NETWORK PLACE CHICAGO, IL 60673	FACILITIES SERVICES MANAGEMENT	918,871
TRINITY HEALTHCARE STAFFING GROUP 1708 TRAWICK RAOD 220 RALEIGH, NC 27604	STAFFING	682,956

2 Total number of independent contractors (including but not limited to those listed above) who received more than $100,000 of compensation from the organization ▶ 35

Part VIII Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, gifts, grants and other similar amounts	1a	Federated campaigns	1a				
	b	Membership dues	1b				
	c	Fundraising events	1c				
	d	Related organizations	1d				
	e	Government grants (contributions)	1e	45,591			
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	529,798			
	g	Noncash contributions included in lines 1a-1f $					
	h	**Total.** Add lines 1a-1f		575,389			
Program Service Revenue			Business Code				
	2a	PATIENT REVENUE	621400	103,373,467	103,373,467		
	b	INTER-FACILITY REVENUE	621400	9,514,229	9,514,229		
	c	INTEGRATION OPERATING	900099	-600,521	-600,521		
	d						
	e						
	f	All other program service revenue		312,035	312,035		
	g	**Total.** Add lines 2a–2f		112,599,210			
	3	Investment income (including dividends, interest and other similar amounts)		2,303,753			2,303,753
	4	Income from investment of tax-exempt bond proceeds					
	5	Royalties					
			(i) Real	(ii) Personal			
	6a	Gross rents	636,996				
	b	Less rental expenses	0				
	c	Rental income or (loss)	636,996				
	d	Net rental income or (loss)			636,996		636,996
			(i) Securities	(ii) Other			
	7a	Gross amount from sales of assets other than inventory	17,513,155				
	b	Less cost or other basis and sales expenses	13,815,838				
	c	Gain or (loss)	3,697,317				
	d	Net gain or (loss)			3,697,317		3,697,317
Other Revenue	8a	Gross income from fundraising events (not including $ _____ of contributions reported on line 1c) See Part IV, line 18	a				
	b	Less direct expenses	b				
	c	Net income or (loss) from fundraising events					
	9a	Gross income from gaming activities See Part IV, line 19	a				
	b	Less direct expenses	b				
	c	Net income or (loss) from gaming activities					
	10a	Gross sales of inventory, less returns and allowances	a	127,727			
	b	Less cost of goods sold	b	73,001			
	c	Net income or (loss) from sales of inventory			54,726	54,726	
		Miscellaneous Revenue	Business Code				
	11a	UNRELATED BUSINESS INC	624110	1,503,458		1,503,458	
	b	INTEGRATION CAPITAL	900099	-1,641,842	-1,641,842		
	c						
	d	All other revenue		1,393,161			1,393,161
	e	**Total.** Add lines 11a–11d		1,254,777			
	12	**Total revenue.** See Instructions		121,122,168	111,012,094	1,503,458	8,031,227

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)

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

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the United States See Part IV, line 21	234,702	234,702		
2	Grants and other assistance to individuals in the United States See Part IV, line 22				
3	Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16				
4	Benefits paid to or for members				
5	Compensation of current officers, directors, trustees, and key employees	272,573	272,573		
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	38,791,666	27,027,136	11,764,530	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	504,029	349,928	154,101	
9	Other employee benefits	5,916,908	4,128,515	1,788,393	
10	Payroll taxes	2,554,491	1,784,714	769,777	
11	Fees for services (non-employees)				
a	Management				
b	Legal	277,414		277,414	
c	Accounting	82,800		82,800	
d	Lobbying	11,872		11,872	
e	Professional fundraising *See Part IV, line 17* . .				
f	Investment management fees	224,243		224,243	
g	Other	17,420,078	16,427,123	992,955	
12	Advertising and promotion				
13	Office expenses	960,589		960,589	
14	Information technology	202,152		202,152	
15	Royalties . .				
16	Occupancy	2,021,245	2,021,245		
17	Travel	280,071	280,071		
18	Payments of travel or entertainment expenses for any federal, state, or local public officials				
19	Conferences, conventions, and meetings				
20	Interest	2,418,119	2,418,119		
21	Payments to affiliates				
22	Depreciation, depletion, and amortization	7,866,891	7,866,891		
23	Insurance	1,915,641		1,915,641	
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 DEBT	18,056,055	18,056,055		
b	SUPPLIES	10,699,718	10,699,718		
c	INTERCOMPANY	2,703,563	2,703,563		
d	DIETARY SUPPLIES	892,279	892,279		
e					
f	All other expenses	1,270,223	846,099	424,124	
25	**Total functional expenses.** Add lines 1 through 24f	115,577,322	96,008,731	19,568,591	0
26	**Joint costs.** Check here ▶ ☐ 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) Beginning of year		(B) End of year
Assets	1	Cash—non-interest-bearing		597,214	1	2,105,699
	2	Savings and temporary cash investments		3,484,324	2	3,906,225
	3	Pledges and grants receivable, net			3	
	4	Accounts receivable, net		15,260,567	4	15,316,765
	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)) and persons described in section 4958(c)(3)(B) Complete Part II of Schedule L			6	
	7	Notes and loans receivable, net		15,247,732	7	10,556,269
	8	Inventories for sale or use		1,701,514	8	1,514,823
	9	Prepaid expenses and deferred charges		435,877	9	817,535
	10a	Land, buildings, and equipment cost or other basis *Complete Part VI of Schedule D*	10a 176,042,068			
	b	Less accumulated depreciation	10b 101,201,262	79,358,482	10c	74,840,806
	11	Investments—publicly traded securities			11	
	12	Investments—other securities See Part IV, line 11		15,961,988	12	14,797,339
	13	Investments—program-related See Part IV, line 11			13	
	14	Intangible assets			14	
	15	Other assets See Part IV, line 11		66,526,403	15	72,427,185
	16	**Total assets.** Add lines 1 through 15 (must equal line 34)		198,574,101	16	196,282,646
Liabilities	17	Accounts payable and accrued expenses		7,897,960	17	7,788,064
	18	Grants payable			18	
	19	Deferred revenue			19	
	20	Tax-exempt bond liabilities		32,257,290	20	30,735,438
	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		1,628,670	23	738,731
	24	Unsecured notes and loans payable to unrelated third parties			24	
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24) Complete Part X of Schedule D		27,761,792	25	28,049,184
	26	**Total liabilities.** Add lines 17 through 25		69,545,712	26	67,311,417
Net Assets or Fund Balances		**Organizations that follow SFAS 117, check here ▶ ☑ and complete lines 27 through 29, and lines 33 and 34.**				
	27	Unrestricted net assets		128,998,053	27	128,939,095
	28	Temporarily restricted net assets		30,336	28	32,134
	29	Permanently restricted net assets			29	
		Organizations that do not follow SFAS 117, check here ▶ ☐ 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		129,028,389	33	128,971,229
	34	Total liabilities and net assets/fund balances		198,574,101	34	196,282,646

Part XI Reconcilliation 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	121,122,168
2	Total expenses (must equal Part IX, column (A), line 25)	2	115,577,322
3	Revenue less expenses Subtract line 2 from line 1	3	5,544,846
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	129,028,389
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-5,602,006
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	128,971,229

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 ☐ Cash ☑ Accrual ☐ Other _____ 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?	2a		No
b	Were the organization's financial statements audited by an independent accountant?	2b	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? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	2c	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 ☐ Separate basis ☑ Consolidated basis ☐ 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?	3a		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	3b		

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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

2011

Open to Public Inspection

Name of the organization
GRACE HOSPITAL INC

Employer identification number
56-0529976

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 **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?

	Yes	No
(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? **11g(i)**		
(ii) a family member of a person described in (i) above? **11g(ii)**		
(iii) a 35% controlled entity of a person described in (i) or (ii) above? **11g(iii)**		

h Provide the following information about the supported organization(s)

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

Part II **Support Schedule for Organizations Described in IRC 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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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 (Explain in Part IV) Do not include gain or loss from the sale of capital assets						
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 2011 (line 6 column (f) divided by line 11 column (f)) **14**

15 Public Support Percentage for 2010 Schedule A, Part II, line 14 **15**

16a **33 1/3% support test—2011.** 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—2010.** 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—2011.** 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—2010.** 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 IRC 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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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 501(c)(3) organization, check this box and **stop here** ▶☐

Section C. Computation of Public Support Percentage

15 Public Support Percentage for 2011 (line 8 column (f) divided by line 13 column (f))	15	
16 Public support percentage from 2010 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage

17 Investment income percentage for **2011** (line 10c column (f) divided by line 13 column (f))	17	
18 Investment income percentage from **2010** Schedule A, Part III, line 17	18	

19a **33 1/3% support tests—2011.** 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 **stop here.** The organization qualifies as a publicly supported organization ▶☐

b **33 1/3% support tests—2010.** 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 **stop here.** 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 explanation required by Part II, line 10; Part II, line 17a or 17b; or Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Explanation

Additional Data

Software ID:
Software Version:
EIN: 56-0529976
Name: GRACE HOSPITAL INC

Form 990, Special Condition Description:

Special Condition Description

Form 990, Part III - 4 Program Service Accomplishments (See the Instructions)

4d. Other program services

(Code) (Expenses $ 59,986,760 including grants of $) (Revenue $ 55,988,429)
OTHER PROGRAMS

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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

2011

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, line 35c (Proxy Tax), then

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

Name of the organization	Employer identification number
GRACE HOSPITAL INC	56-0529976

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 on behalf of or in opposition to candidates for public office 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? ☐ Yes ☐ No

4a Was a correction made? ☐ Yes ☐ 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 **Form 1120-POL** for this year? ☐ Yes ☐ 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 (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures)

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

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)	(a) Filing Organization's Totals	(b) Affiliated Group 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		
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-		

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

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? ☐ **Yes** ☐ **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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) Total
2a Lobbying non-taxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots non-taxable amount					
e Grassroots ceiling amount (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) Yes	(a) No	(b) 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?		No	
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	Yes		11,872
j	Total lines 1c through 1i			11,872
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).**		
a	Current year	2a	
b	Carryover from last year	2b	
c	Total	2c	
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
EXPLANATION OF LOBBYING ACTIVITIES	PART II-B, LINE 1	MEMBERSHIP DUES TO AMERICAN HOSPITAL ASSOCIATION AND NORTH CAROLINA HEALTH CARE FACILITIES ASSOCIATION

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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, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
GRACE HOSPITAL INC

Employer identification number
56-0529976

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? ☐ Yes ☐ No

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 ☐ Yes ☐ No

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
a	Total number of conservation easements	2a
b	Total acreage restricted by conservation easements	2b
c	Number of conservation easements on a certified historic structure included in (a)	2c
d	Number of conservation easements included in (c) acquired after 8/17/06	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
c Beginning balance	1c	
d Additions during the year	1d	
e Distributions during the year	1e	
f Ending balance	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

		Yes	No
(i) unrelated organizations	3a(i)		
(ii) related organizations	3a(ii)		
b If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?	3b		

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

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

Description of property	(a) Cost or other basis (investment)	(b) Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		977,206		977,206
b Buildings		102,536,161	48,481,489	54,054,672
c Leasehold improvements				
d Equipment		68,191,540	50,376,423	17,815,117
e Other		4,337,161	2,343,350	1,993,811
Total. Add lines 1a-1e *(Column (d) should equal Form 990, Part X, column (B), line 10(c).)* ▶				74,840,806

Part VII Investments—Other Securities. See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives		
(2) Closely-held equity interests		
(3) Other		
(A) INVESTMENTS	14,797,339	F
Total. *(Column (b) should equal Form 990, Part X, col (B) line 12)* ▶	14,797,339	

Part VIII Investments—Program Related. See Form 990, Part X, line 13.

(a) Description of investment type	(b) Book value	(c) Method of valuation Cost or end-of-year market value
Total. *(Column (b) should equal Form 990, Part X, col (B) line 13)* ▶		

Part IX Other Assets. See Form 990, Part X, line 15.

(a) Description	(b) Book value
(1) OTHER ASSETS	4,825,694
(2) BOARD DESIGNATED FOR SCHOLARSHIPS	129,354
(3) BOARD DESIGNATED AS FUNDED DEPRECIATION	67,349,084
(4) GUILD	123,053
Total. *(Column (b) should equal Form 990, Part X, col.(B) line 15.)* . . . . . ▶	72,427,185

Part X Other Liabilities. See Form 990, Part X, line 25.

1 (a) Description of Liability	(b) Amount
Federal Income Taxes	
DUE TO BLUE RIDGE HEALTH SYSTEMS, INC	24,828,824
THIRD PARTY SETTLEMENTS	3,219,615
GUILD	745
Total. *(Column (b) should equal Form 990, Part X, col (B) line 25)* ▶	28,049,184

2. Fin 48 (ASC 740) Footnote In Part XIV, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC740)

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	121,122,168
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	115,577,322
3	Excess or (deficit) for the year Subtract line 2 from line 1	3	5,544,846
4	Net unrealized gains (losses) on investments	4	-5,605,354
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV)	8	3,348
9	Total adjustments (net) Add lines 4 - 8	9	-5,602,006
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10	-57,160

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	115,383,513
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12				
a	Net unrealized gains on investments	2a	-5,605,354		
b	Donated services and use of facilities	2b			
c	Recoveries of prior year grants	2c			
d	Other (Describe in Part XIV)	2d	-829,684		
e	Add lines **2a** through **2d**			2e	-6,435,038
3	Subtract line **2e** from line **1**			3	121,818,551
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	-696,383		
c	Add lines **4a** and **4b**			4c	-696,383
5	Total Revenue Add lines **3** and **4c.** (This should equal Form 990, Part I, line 12)			5	121,122,168

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

1	Total expenses and losses per audited financial statements			1	115,456,410
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	751,109		
e	Add lines **2a** through **2d**			2e	751,109
3	Subtract line **2e** from line **1**			3	114,705,301
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	872,021		
c	Add lines **4a** and **4b**			4c	872,021
5	Total expenses Add lines **3** and **4c.** (This should equal Form 990, Part I, line 18)			5	115,577,322

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
DESCRIPTION OF UNCERTAIN TAX POSITIONS UNDER FIN 48	PART X	THE FILING ORGANIZATION IS A TAX-EXEMPT ORGANIZATION AS DEFINED IN SECTION 501(C)(3) OF THE INTERNAL REVENUE CODE THE FILING ORGANIZATION'S INCOME TAX RETURNS ARE SUBJECT TO REVIEW AND EXAMINATION BY FEDERAL AND STATE AUTHORITIES THE FILING ORGANIZATION IS NOT AWARE OF ANY ACTIVITIES THAT WOULD JEOPARDIZE ITS TAX-EXEMPT STATUS THE FILING ORGANIZATION IS NOT AWARE OF ANY ACTIVITIES THAT ARE SUBJECT TO TAX ON UNRELATED BUSINESS INCOME OR EXCISE OR OTHER TAXES THE FILING ORGANIZATION ADOPTED THE INCOME TAX STANDARD FOR UNCERTAIN TAX POSITIONS THIS STANDARD CLARIFIES THE ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES RECOGNIZED IN AN ORGANIZATION'S FINANCIAL STATEMENTS IN ACCORDANCE WITH THE INCOME TAX STANDARD THIS STANDARD PRESCRIBES RECOGNITION AND MEASUREMENT OF TAX POSITIONS TAKEN OR EXPECTED TO BE TAKEN ON A TAX RETURN THAT ARE NOT CERTAIN TO BE REALIZED THIS STANDARD HAD NO IMPACT ON THE FILING ORGANIZATION'S FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 OR DECEMBER 31, 2010
PART XI, LINE 8 - OTHER ADJUSTMENTS		MISCELLANEOUS 3,348
PART XII, LINE 2D - OTHER ADJUSTMENTS		INVESTMENT FEES -224,243 RECLASSED EXPENSES - 607,239 RELEASES FROM RESTRICTION 1,798
PART XII, LINE 4B - OTHER ADJUSTMENTS		GUILD 54,726 DISTRIBUTIONS-PARTNERSHIPS -751,109 RENTAL EXPENSES
PART XIII, LINE 2D - OTHER ADJUSTMENTS		RENTAL EXPENSES DISTRIBUTIONS-PARTNERSHIPS 751,109
PART XIII, LINE 4B - OTHER ADJUSTMENTS		RECLASSED EXPENSES 607,239 INVESTMENT FEES 224,243 GUILD 40,539

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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

2011

Open to Public Inspection

Name of the organization
GRACE HOSPITAL INC

Employer identification number
56-0529976

Part I Charity Care and Certain Other Community Benefits at Cost

			Yes	No
1a	Did the organization have a charity care policy? If "No," skip to question 6a	1a	Yes	
b	If "Yes," is it a written policy?	1b	Yes	
2	If the organization had multiple hospitals, indicate which of the following best describes application of the charity care policy to the various hospitals ☑ Applied uniformly to all hospitals ☐ Applied uniformly to most hospitals ☐ Generally tailored to individual hospitals			
3	Answer the following based on the charity care eligibility criteria that applies to the largest number of the organization's patients during the tax year			
a	Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing *free* care? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care ☑ 100% ☐ 150% ☐ 200% ☐ Other _____ %	3a	Yes	
b	Did the organization use FPG to determine eligibility for providing *discounted* care? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care ☐ 200% ☑ 250% ☐ 300% ☐ 350% ☐ 400% ☐ Other _____ %	3b	Yes	
c	If the organization did 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			
4	Did the organization's policy provide free or discounted care to the "medically indigent"?	4	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	5a	Yes	
b	If "Yes," did the organization's charity care expenses exceed the budgeted amount?	5b	Yes	
c	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 eligibile for free or discounted care?	5c		No
6a	Did the organization prepare a community benefit reportduring the tax year?	6a	Yes	
6b	If "Yes," did the organization make it available to the public?	6b	Yes	
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H			

7 Charity Care and Certain Other Community Benefits at Cost

Charity Care 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 Charity care at cost (from Worksheet 1)			5,484,547	1,928,758	3,555,789	3 650 %
b Medicaid (from Worksheet 3, column a)			18,182,537	10,154,149	8,028,388	8 230 %
c Costs of other means-tested government programs (from Worksheet 3, column b)			372,832	219,315	153,517	0 160 %
d **Total** Charity Care and Means-Tested Government Programs			24,039,916	12,302,222	11,737,694	12 040 %
Other Benefits						
e Community health improvement services and community benefit operations (from (Worksheet 4)			217,720		217,720	0 220 %
f Health professions education (from Worksheet 5)			41,322		41,322	0 040 %
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7)			312,256		312,256	0 320 %
i Cash and in-kind contributions for community benefit (from Worksheet 8)			165,825		165,825	0 170 %
j **Total** Other Benefits			737,123		737,123	0 750 %
k **Total.** Add lines 7d and 7j			24,777,039	12,302,222	12,474,817	12 790 %

Part II Community Building Activities Complete this table if the organization conducted any community building activities.

	(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 Heathcare Financial Management Association Statement No 15?		1	Yes	
2	Enter the amount of the organization's bad debt expense	2	5,501,856		
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy	3	1,873,356		
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	22,554,404		
6	Enter Medicare allowable costs of care relating to payments on line 5	6	26,666,001		
7	Subtract line 6 from line 5 This is the surplus or (shortfall)	7	-4,111,597		
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				

☐ Cost accounting system ☑ Cost to charge ratio ☐ Other

Section C. Collection Practices

9a	Did the organization have a written debt collection policy during the tax year?			9a	Yes
b	If "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI			9b	Yes

Part IV Management Companies and Joint Ventures (see instructions)

(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 1 BLUE RIDGE CARDIOLOGY	HEART CATH SVCS	50 000 %	0 %	0 %
2 2 CAROLINAS HEALTHCARE SYSTEM	MANAGEMENT SERVICES	0 %	0 %	0 %
3 3 CHS - HEALTHY HOME	HOME NURSING & THERAPY	18 000 %	0 %	0 %
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

Part V Facility Information

Section A. Hospital Facilities

(list in order of size from largest to smallest)

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

	Name and address	Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)
1	GRACE HOSPITAL INC 2201 SOUTH STERLING STREET MORGANTON, NC 28655	X	X					X		

Part V Facility Information *(continued)*

Section B. Facility Policies and Practices.

(Complete a separate Section B for each of the hospital facilities listed in Part V, Section A)

GRACE HOSPITAL INC

Name of Hospital Facility: _____

Line Number of Hospital Facility (from Schedule H, Part V, Section A): 1

		Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)			
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8	**1**		
If "Yes," indicate what the Needs Assessment describes (check all that apply)			
a ☐ A definition of the community served by the hospital facility			
b ☐ Demographics of the community			
c ☐ Existing health care facilities and resources within the community that are available to respond to the health needs of the community			
d ☐ How data was obtained			
e ☐ The health needs of the community			
f ☐ Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups			
g ☐ The process for identifying and prioritizing community health needs and services to meet those needs			
h ☐ The process for consulting with persons representing the community's interests			
i ☐ Information gaps that limit the hospital facility's ability to assess the community's health needs			
j ☐ Other (describe in Part VI)			
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ___			
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	**3**		
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	**4**		
5 Did the hospital facility make its Needs Assessment widely available to the public?	**5**		
If "Yes," indicate how the Needs Assessment was made widely available (check all that apply)			
a ☐ Hospital facility's website			
b ☐ Available upon request from the hospital facility			
c ☐ Other (describe in Part VI)			
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply)			
a ☐ Adoption of an implementation strategy to address the health needs of the hospital facility's community			
b ☐ Execution of the implementation strategy			
c ☐ Development of a community-wide community benefit plan for the facility			
d ☐ Participation in community-wide community benefit plan			
e ☐ Inclusion of a community benefit section in operational plans			
f ☐ Adoption of a budget for provision of services that address the needs identified in the CHNA			
g ☐ Prioritization of health needs in the community			
h ☐ Prioritization of services that the hospital facility will undertake to meet health needs in its community			
i ☐ Other (describe in Part VI)			
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	**7**		
Financial Assistance Policy			
Did the hospital facility have in place during the tax year a written financial assistance policy that			
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	**8**	Yes	
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care?	**9**	Yes	
If "Yes," indicate the FPG family income limit for eligibility for free care 120 000000000000%			
If "No," explain in Part VI the criteria the hospital facility used			

Part V Facility Information *(continued)*

			Yes	No
10	Used FPG to determine eligibility for providing discounted care?	10	Yes	
	If "Yes," indicate the FPG family income limit for eligibility for discounted care 250 000000000000%			
	If "No," explain in Part VI the criteria the hospital facility used			
11	Explained the basis for calculating amounts charged to patients?	11	Yes	
	If "Yes," indicate the factors used in determining such amounts (check all that apply)			
	a ☑ Income level			
	b ☑ Asset level			
	c ☑ Medical indigency			
	d ☑ Insurance status			
	e ☑ Uninsured discount			
	f ☐ Medicaid/Medicare			
	g ☐ State regulation			
	h ☐ Other (describe in Part VI)			
12	Explained the method for applying for financial assistance?	12	Yes	
13	Included measures to publicize the policy within the community served by the hospital facility?	13	Yes	
	If "Yes," indicate how the hospital facility publicized the policy (check all that apply)			
	a ☑ The policy was posted at all times on the hospital facility's web site			
	b ☐ The policy was attached to all billing invoices			
	c ☐ The policy was posted in the hospital facility's emergency rooms or waiting rooms			
	d ☐ The policy was posted in the hospital facility's admissions offices			
	e ☐ The policy was provided, in writing, to patients upon admission to the hospital facility			
	f ☑ The policy was available upon request			
	g ☑ Other (describe in Part VI)			

Billing and Collections

14	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?	14	Yes	
15	Check all of the following collection actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP			
	a ☐ Reporting to credit agency			
	b ☐ Lawsuits			
	c ☐ Liens on residences			
	d ☐ Body attachments or arrests			
	e ☐ Other similar actions (describe in Part VI)			
16	Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP?	16		No
	If "Yes," check all actions in which the hospital facility or a third party engaged			
	a ☐ Reporting to credit agency			
	b ☐ Lawsuits			
	c ☐ Liens on residences			
	d ☐ Body attachments			
	e ☐ Other similar actions (describe in Part VI)			
17	Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply)			
	a ☐ Notified patients of the financial assistance policy upon admission			
	b ☐ Notified patients of the financial assistance policy prior to discharge			
	c ☐ Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills			
	d ☐ Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy			
	e ☐ Other (describe in Part VI)			

Part V Facility Information *(continued)*

Policy Relating to Emergency Medical Care

		Yes	No
18 Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy?	**18**	Yes	
If "No," indicate why			
a ☐ The hospital facility did not provide care for any emergency medical conditions			
b ☐ The hospital facility's policy was not in writing			
c ☐ The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)			
d ☐ Other (describe in Part VI)			

Individuals Eligible for Financial Assistance

19 Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care			
a ☐ The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged			
b ☐ The hospital facility used the average of it's three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged			
c ☐ The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged			
d ☐ Other (describe in Part VI)			
20 Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care?	**20**		No
If "Yes," explain in Part VI			
21 Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for services provided to that patient?	**21**		No
If "Yes," explain in Part VI			

Part V Facility Information *(continued)*

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility
(list in order of size 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		
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 descriptions 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, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21

2 **Community health needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any community health 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 3C GRACE HOSPITAL USES THE SLIDING SCALE PROVIDED IN THE FEDERAL POVERTY INCOME GUIDELINES PUBLISHED ANNUALLY BY THE DEPARTMENT OF HEALTH AND HUMAN SERVICES TO DETERMINE ELIGIBILITY AN ASSET TEST IS USED TO DETERMINE ELIGIBILITY FOR FREE OR DISCOUNTED CARE PART I, LINE 6A COMMUNITY BENEFIT REPORT IS PREPARED FOR BLUE RIDGE HEALTHCARE SYSTEM (BRHS) WHICH INCLUDES GRACE HOSPITAL, GRACE NURSING CENTER, VALDESE NURSING CENTER, VALDESE GENERAL HOSPITAL, AND BLUE RIDGE HEALTHCARE MEDICAL GROUP

Identifier	ReturnReference	Explanation
		PART I, L7 COL(F) BAD DEBT COST FROM LINE 2 IS BASED ON TOTAL BAD DEBT EXPENSE MULTIPLIED BY THE COST-TO-CHARGE RATIO CHARITY INCLUDED ON LINE 3 IS CALCULATED BASED ON A STATISTICAL SAMPLE OF SELF PAY PATIENTS THAT QUALIFY FOR CHARITY CARE FROM THE OUTPATIENT SETTING PER NOTE 8 OF BLUE RIDGE'S AUDITED FINANCIAL STATEMENTS, "UNINSURED DISCOUNTS AND BAD DEBTS - INCLUDES THE COST OF SERVICES PROVIDED TO UNINSURED OR UNDERINSURED PATIENTS AND TO PATIENTS WHO OTHERWISE DO NOT PAY FOR THEIR HEALTHCARE SERVICES "

Identifier	ReturnReference	Explanation
		PART II NOT APPLICABLE FOR GRACE HOSPITAL

Identifier	ReturnReference	Explanation
		PART III, LINE 4 BRHC'S COST OR 'INVESTMENT IN' ITS MISSION TO CREATE AND OPERATE A COMPREHENSIVE SYSTEM TO PROVIDE HEALTH CARE AND RELATED SERVICES, INCLUDING EDUCATION AND RESEARCH PROGRAMS, FOR THE BENEFIT OF THE PEOPLE IT SERVES, IS MEASURED USING THE FOLLOWING CATEGORIES OF COMMUNITY BENEFIT COSTS OF FINANCIAL ASSISTANCE TO INDIGENT PATIENTS - INCLUDES THE COST OF SERVICES PROVIDED TO PATIENTS WHO MEET CERTAIN CRITERIA UNDER THE BRHC FINANCIAL ASSISTANCE POLICIES, WHICH PROVIDE CARE WITHOUT CHARGE OR AT DISCOUNTED RATES TO UNINSURED PATIENTS KEY ELEMENTS USED TO DETERMINE ELIGIBILITY FOR FINANCIAL ASSISTANCE INCLUDE A PATIENTS DEMONSTRATED ABILITY TO PAY BASED ON FAMILY SIZE AND HOUSEHOLD INCOME RELATIVE TO FEDERAL INCOME POVERTY GUIDELINES COSTS OF DISCOUNTS EXTENDED TO UNINSURED PATIENTS AND BAD DEBT COSTS BY PATIENTS WHO DO NOT PAY FOR SERVICES - INCLUDES THE COST OF SERVICES PROVIDED TO UNINSURED OR UNDERINSURED PATIENTS AND TO PATIENTS WHO OTHERWISE DO NOT PAY FOR THEIR HEALTH CARE SERVICES LOSSES INCURRED BY SERVING MEDICARE AND MEDICAID PATIENTS - REPRESENTS THE UNREIMBURSED COST OF SERVICES PROVIDED TO PATIENTS WHO QUALIFY FOR FEDERAL AND/OR STATE GOVERNMENT HEALTH CARE BENEFITS COMMUNITY BENEFIT PROGRAMS - INCLUDES THE UNREIMBURSED COST OF VARIOUS EDUCATION AND RESEARCH PROGRAMS, NON-BILLED MEDICAL SERVICES, IN-KIND DONATIONS, AND OTHER SERVICES THAT MEET A STRONG COMMUNITY NEED, BUT DO NOT PAY FOR THEMSELVES AND WOULD BE CUT BASED SOLELY ON FINANCIAL CONSIDERATIONS ALONE

Identifier	ReturnReference	Explanation
		PART III, LINE 8 THE MEDICARE COST REPORT IS PREPARED USING THE AUDITED TRIAL BALANCE FOR GRACE HOSPITAL THE COST REPORT IS PREPARED IN ACCORDANCE WITH ALL APPLICABLE RULES AND REGULATIONS AS A 501(C)(3) ORGANIZATION, GRACE HOSPITAL ACCEPTS ALL PATIENTS WITHOUT REGARD TO THE INSURANCE OR LACK OF INSURANCE

Identifier	ReturnReference	Explanation
		PART III, LINE 9B IF FINANCIAL ASSISTANCE IS 100% NO COLLECTION EFFORTS ARE MADE AS ACCOUNT BALANCE IS 0 IF PARTIAL FINANCIAL ASSISTANCE, NORMAL COLLECTION PROCEDURES APPLY FOR PATIENT RESPONSIBILTY AMOUNTS

Identifier	ReturnReference	Explanation
GRACE HOSPITAL, INC		PART V, SECTION B, LINE 13G PATIENT ROOM VISIT FROM FINANCIAL COUNSELOR AND SOCIAL WORKER CONTACT INFO ON WEBSITE AND PATIENT STATEMENTS

Identifier	ReturnReference	Explanation
GRACE HOSPITAL, INC		PART V, SECTION B, LINE 19D ALL PATIENTS RECEIVE SAME CHARGE BASED ON SERVICES PROVIDED DISCOUNT FOR FINANCIAL ASSISTANCE IS DETERMINED BY POLICY WHICH INCLUDES AN UNINSURED DISCOUNT OF 30% FOR THAT POPULATION

Identifier	ReturnReference	Explanation
		PART VI, LINE 2 GRACE HOSPITAL PERFORMS OUTREACH SERVICES AND HEALTH EDUCATION OPPORTUNITIES FOR THE COMMUNITY SERVED FEEDBACK FROM THESE EFFORTS ALONG WITH THE EVALUATION OF THE PATIENTS SERVED ARE CONSIDERED IN ASSESSING THE COMMUNITIES HEALTH CARE NEEDS IN ADDITION, THE ORGANIZATION HAS CONDUCTED EXTENSIVE RESEARCH INTO THE AREAS MOST SERIOUS HEALTH THREATS AND DEVELOPED A PLAN TO FOCUS ATTENTION ON THESE ISSUES

Identifier	ReturnReference	Explanation
		PART VI, LINE 3 ALL SELF PAY ED PATIENTS ARE SCREENED FOR CHARITY AND-OR FINANCIAL ASSISTANCE IN THE ED AREA PATIENT SEEN IN OUTPATIENT SURGERY AND INPATIENT SETTINGS ARE SCREENED DURING OR PRIOR TO SERVICES MONTHLY STATEMENTS REFERENCE THE PHONE NUMBERS TO CALL FOR FINANCIAL ASSISTANCE

Identifier	ReturnReference	Explanation
		PART VI, LINE 4 BRHCS PRIMARY SERVICE AREA INCLUDES THREE COUNTIES (BURKE, MCDOWELL, CALDWELL), PATIENTS FROM A NUMBER OF OTHER OUTLYING COUNTIES ARE ALSO SERVED BY BRHC THE POPULATION IS PREDOMINANTLY CAUCASIAN SIGNIFICANT MINORITIES INCLUDE HMONG, AFRICAN-AMERICAN AND HISPANIC RESIDENTS THE AREA IS ECONOMICALLY DEPRESSED DUE TO THE LOSS OF TRADITIONAL FURNITURE AND TEXTILE INDUSTRIES

Identifier	ReturnReference	Explanation
		PART VI, LINE 5 BRHC IS GOVERNED BY A VOLUNTEER COMMUNITY BOARD OF DIRECTORS BRHC SYSTEM IS SERVED BY OPEN MEDICAL STAFFS THE SYSTEM IS ALSO SUPPORTED BY A GROWING BRHC VOLUNTEERS CORPS WHO CONTRIBUTE THOUSANDS OF HOURS IN SERVICE ANNUALLY BRHC ACTIVELY RECRUITS PRIMARY CARE PHYSICIANS AND PHYSICIAN SPECIALISTS TO MEET SPECIFIC MEDICAL NEEDS IN THE COMMUNITY

Identifier	ReturnReference	Explanation
		PART VI, LINE 6 GRACE HOSPITAL IS PART OF BLUE RIDGE HEALTHCARE SYSTEM BLUE RIDGE SERVES BURKE COUNTY, NC AND SURROUNDING COUNTIES BLUE RIDGE IS AFFILIATED WITH CAROLINAS HEALTHCARE SYSTEM BASED IN CHARLOTTE, NC

Identifier	ReturnReference	Explanation
REPORTS FILED WITH STATES	PART VI, LINE 7	NC

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Schedule I (Form 990)

Department of the Treasury
Internal Revenue Service

Grants and Other Assistance to Organizations, Governments and Individuals in the United States

Complete if the organization answered "Yes," to Form 990, Part IV, line 21 or 22.
▶ Attach to Form 990

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
GRACE HOSPITAL INC

Employer identification number
56-0529976

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. Use Part IV and Schedule I-1 (Form 990) if additional space is needed . . . . . ▶ ☐

(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) BLUE RIDGE HEALTHCARE FOUNDATION INC2201 SOUTH STERLING STREET MORGANTON,NC 28655	58-2063920	501(C)(3)	19,937				MEMORIAL DONATIONS AND HEALTHCARE EQUIPMENT
(2) BURKE CO - FOOTHILLS ALLIED HEALTHPO BOX 219 MORGANTON,NC 28655	56-6000280	501(C)(3)	37,800				DONATION FOR HEALTHCARE EDUCATION CENTER
(3) GOOD SAMARITAN CLINIC305 W UNION ST MORGANTON,NC 28655	56-1939030	501(C)(3)		50,597	RETAIL VALUE		DONATED PHARMACEUTICALS
(4) BURKE COUNTY COMMITTEE OF 100 INC PO BOX 1489 MORGANTON,NC 28655	20-8831851	501(C)(3)	5,000				COMMUNITY BENEFIT
(5) BURKE COUNTY PUBLIC SCHOOLSPO BOX 889 MORGANTON,NC 28655	56-0935935	GOVERNMENTAL	121,368				SCHOOL NURSES AND ATHLETIC TRAINERS

2 Enter total number of section 501(c)(3) and government organizations listed in the line 1 table . . . . . ▶ 5

3 Enter total number of other organizations listed in the line 1 table . . . . . ▶ 0

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
PROCEDURE FOR MONITORING GRANTS IN THE U S	PART I, LINE 2	SCHEDULE I, PART I, LINE 2 BLUE RIDGE HEALTHCARE SYSTEM EMPLOYEES AND THEIR FAMILY MEMBERS ARE FIRST CONSIDERED FOR FINANCIAL ASSISTANCE THROUGH SCHOLARSHIPS AND GRANTS IN AID APPLICANTS PREPARING FOR WORK IN HEALTHCARE RELATED AREAS ARE CONSIDERED NEXT GENERALLY, THIS DOES NOT INCLUDE AREAS OF STUDY SUCH AS ACCOUNTING OR INFORMATION SYSTEMS FINANCIAL ASSISTANCE IS BASED ON THE INDIVIDUAL'S QUALIFICATIONS AND DEMONSTRATED FINANCIAL NEEDS A GRADE POINT AVERAGE OF AT LEAST 2 5 ON A 4 0 SCALE IS REQUIRED THE SCHOLARSHIP COMMITTEE MEETS TWICE A YEAR OR AS OFTEN AS NEEDED TO DECIDE ON RECIPIENTS IF ALL APPLICATIONS SATISFY SELECTION CRITERIA, THEN MONIES ARE AWARDED BASED ON OTHER FINANCIAL ASSISTANCE AWARDED, DEMONSTRATED FINANCIAL NEED, AREA OF STUDY, AND GRADE POINT AVERAGE ALL SELECTED APPLICATIONS INTERVIEWED BY THE SCHOLARSHIP COMMITTEE CHAIRPERSON

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Schedule J (Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

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.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
GRACE HOSPITAL INC

Employer identification number
56-0529976

Part I Questions Regarding Compensation

			Yes	No
1a	Check the appropiate 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 ☐ First-class or charter travel ☐ Housing allowance or residence for personal use ☐ Travel for companions ☐ Payments for business use of personal residence ☐ Tax idemnification and gross-up payments ☑ Health or social club dues or initiation fees ☐ Discretionary spending account ☐ Personal services (e g , maid, chauffeur, chef)			
b	If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement orprovision of all the expenses described above? If "No," complete Part III to explain	**1b**	Yes	
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**	Yes	
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 ☑ Compensation committee ☐ Written employment contract ☐ Independent compensation consultant ☐ Compensation survey or study ☐ Form 990 of other organizations ☑ Approval by the board or compensation committee			
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?	**4a**		No
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	**4b**		No
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**	Yes	
b	Any related organization?	**6b**	Yes	
	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 accured 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 Schedule J-1 if additional space 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) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, columns (D) and (E) for that individual

(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) LAURA LAMBETH	(i)	187,442	59,934	0	7,352	17,845	272,573	0
	(ii)	0	0	0	0	0	0	0
(2) THOMAS EURE	(i)	158,485	33,527	6,755	7,031	28,263	234,061	0
	(ii)	0	0	0	0	0	0	0
(3) ANTHONY FRASCA MD	(i)	272,209	0	0	8,846	13,813	294,868	0
	(ii)	0	0	0	0	0	0	0
(4) BYRON STROTHER MD	(i)	267,334	0	0	9,575	22,747	299,656	0
	(ii)	0	0	0	0	0	0	0
(5) JOSEPH MAZZOLA MD	(i)	262,548	0	0	1,584	22,848	286,980	0
	(ii)	0	0	0	0	0	0	0

Part III Supplemental 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 1A	BENEFITS PROVIDED TO OFFICERS TO FACILITATE BUSINESS RELATIONSHIPS
	PART I, LINE 3	UNCHECKED ITEMS ARE CONDUCTED BY CHS AS PART OF THE MANAGEMENT AGREEMENT THE ORGANIZATION COMPENSATION COMMITTEE REVIEWS AND APPROVES
	PART I, LINE 6	BONUSES ARE PAID IF THE ORGANIZATION'S RESULTS MEET CERTAIN PERFORMANCE INDICATORS
SUPPLEMENTAL INFORMATION	PART III	PART II COMPENSATION FOR KENNETH WOOD, KATHY BAILEY, AND ROBERT FRITTS IS PAID BY CAROLINA HEALTH SYSTEMS THROUGH A MANAGEMENT SERVICE CONTRACT

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Schedule L (Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Transactions with Interested Persons

▶ Complete if the organization answered "Yes" on Form 990, Part IV, lines 25a, 25b, 26, 27, 28a, 28b, or 28c, or Form 990-EZ, Part V lines 38a or 40b.
▶ Attach to Form 990 or Form 990-EZ. ▶See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
GRACE HOSPITAL INC

Employer identification number
56-0529976

Part I Excess Benefit Transactions (section 501(c)(3) and section 501 (c)(4) organizations only).

Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b

1 (a) Name of disqualified person	(b) Description of transaction	(c) Corrected? Yes	(c) Corrected? No

2 Enter the amount of tax imposed on the organization managers or disqualified persons during the year under section 4958 . . . . . ▶ $

3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization . . . . . ▶ $

Part II Loans to and/or From Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 26, or Form 990-EZ, Part V, line 38a

(a) Name of interested person and purpose	(b) Loan to or from the organization? To	(b) From	(c) Original principal amount	(d) Balance due	(e) In default? Yes	(e) No	(f) Approved by board or committee? Yes	(f) No	(g) Written agreement? Yes	(g) No
Total . . . . . ▶ $										

Part III Grants or Assistance Benefitting Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 27.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of grant or type of assistance

Part IV **Business Transactions Involving Interested Persons.**

Complete if the organization answered "Yes" on Form 990, Part IV, line 28a, 28b, or 28c.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) KENNETH WOOD	VOTING BOARD MEMBER AND CEO	0	HIS COMPENSATION IS PAID BY CAROLINA HEALTH SYSTEM		No

Part V **Supplemental Information**

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

Identifier	Return Reference	Explanation

efile GRAPHIC print - DO NOT PROCESS	As Filed Data -	DLN: 93493313006372

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

2011

Open to Public Inspection

Name of the organization
GRACE HOSPITAL INC

Employer identification number
56-0529976

Identifier	Return Reference	Explanation
	FORM 990, PART VI, SECTION A, LINE 3	IN 1999, THE ORGANIZATION ENTERED INTO A MANAGEMENT SERVICES CONTRACT WITH CAROLINAS HEALTHCARE SYSTEM THE TERMS OF THE CONTRACT CALL FOR THE ORGANIZATION TO PAY CAROLINAS HEALTHCARE SYSTEM AN ANNUAL MANAGEMENT FEE BASED UPON THE ORGANIZATION'S NET OPERATING REVENUES IN ADDITION, CAROLINAS HEALTHCARE SYSTEM IS REQUIRED TO FURNISH THE ORGANIZATION WITH A CHIEF EXECUTIVE OFFICER, CHIEF OPERATING OFFICER, AND CHIEF FINANCIAL OFFICER THE ORGANIZATION REIMBURSES CAROLINAS HEALTHCARE SYSTEM FOR THE SALARY AND BENEFITS' COST OF THESE INDIVIDUALS
	FORM 990, PART VI, SECTION B, LINE 11	THE CHIEF FINANCIAL OFFICER AND THE EXECUTIVE COMMITTEE WILL REVIEW THE PREPARED FORM 990 BEFORE IT IS FILED WITH THE IRS A DRAFT OF FORM 990 WAS POSTED FOR ACCESS BY THE GOVERNING BODY BEFORE IT WAS FILED WITH THE IRS
	FORM 990, PART VI, SECTION B, LINE 12C	CORPORATE COUNSEL, WHO REVIEWS ALL ANNUAL CONFLICT OF INTEREST DISCLOSURES, IS PRESENT AT EVERY BOARD MEETING TO ENSURE THAT ANY POTENTIAL CONFLICTS ARE APPROPRIATELY HANDLED BY MEMBERS ABSTAINING FROM VOTES AS APPROPRIATE
	FORM 990, PART VI, SECTION B, LINE 15	SUCH A PROCESS WAS PERFORMED FOR DETERMINING THE COMPENSATION OF THE ORGANIZATION'S PRESIDENT/CEO, CFO AND AND COO DURING 2011 AND KEY EMPLOYEE DURING 2011
	FORM 990, PART VI, SECTION C, LINE 19	BY-LAWS ARE AVAILABLE UPON REQUEST THROUGH CORPORATE COUNSEL ARTICLES OF INCORPORATION ARE FILED WITH NC STATE AND ARE AVAILABLE ON THEIR WEBSITE FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST
	FORM 990, PART VII, DESCRIPTION OF HOURS FOR RELATED ORGANIZATIONS	OFFICERS AND KEY EMPLOYEES LISTED ON PART VII WORK AN AVERAGE OF 40-50 HOURS PER WEEK THEIR TIME IS SHARED BETWEEN THE FILING ORGANIZATION AND OTHER RELATED ENTITIES LISTED ON SCHEDULE R
CHANGES IN NET ASSETS OR FUND BALANCES	FORM 990, PART XI, LINE 5	NET UNREALIZED LOSSES ON INVESTMENTS -5,605,354 MISCELLANEOUS 3,348 TOTAL TO FORM 990, PART XI, LINE 5 -5,602,006
	FORM 990, PART XII, LINE 2C	NO CHANGES FOR APPROVING AUDITED FINANCIAL STATEMENTS OR SELECTION OF INDEPENDENT ACCOUNTANTS HAVE OCCURRED FROM THE PRIOR YEAR

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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

2011

Open to Public Inspection

Name of the organization
GRACE HOSPITAL INC

Employer identification number
56-0529976

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

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1) GRACE HEALTH VENTURES INC 2201 SOUTH STERLING STREET MORGANTON, NC 28655 56-1581317	RELATED	NC	-512	35,284	BLUE RIDGE HEALTHCARE SYSTEMS INC

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) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
See Additional Data Table							

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) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproportionate allocations? Yes	(h) Disproportionate allocations? No	(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner? Yes	(j) General or managing partner? No	(k) Percentage ownership
(1) BLUE RIDGE CARDIOLOGY 2201 SOUTH STERLING STREET MORGANTON, NC 28655 75-3158601	CARDIAC CATHETERIZATION SERVICES	NC	BRHC & MEDCATH	RELATED	9,769	330,906		No			No	50 000 %
(2) HEALTHY HOME LLC 4425 GOLF ACRES DR CHARLOTTE, NC 29202 26-1451047	HOME HEALTH SERVICES	NC	THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY	RELATED	-119,350	-119,350		No			No	18 000 %

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) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership

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

			Yes	No
1	During the tax year, did the orgranization 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	1a	Yes	
b	Gift, grant, or capital contribution to related organization(s)	1b		No
c	Gift, grant, or capital contribution from related organization(s)	1c		No
d	Loans or loan guarantees to or for related organization(s)	1d		No
e	Loans or loan guarantees by related organization(s)	1e		No
f	Sale of assets to related organization(s)	1f		No
g	Purchase of assets from related organization(s)	1g		No
h	Exchange of assets with related organization(s)	1h		No
i	Lease of facilities, equipment, or other assets to related organization(s)	1i		No
j	Lease of facilities, equipment, or other assets from related organization(s)	1j	Yes	
k	Performance of services or membership or fundraising solicitations for related organization(s)	1k	Yes	
l	Performance of services or membership or fundraising solicitations by related organization(s)	1l	Yes	
m	Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)	1m	Yes	
n	Sharing of paid employees with related organization(s)	1n	Yes	
o	Reimbursement paid to related organization(s) for expenses	1o	Yes	
p	Reimbursement paid by related organization(s) for expenses	1p	Yes	
q	Other transfer of cash or property to related organization(s)	1q		No
r	Other transfer of cash or property from related organization(s)	1r		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) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) GRACE LIFECARE INC	P	299,052	INTERCOMPANY ACTIVITY
(2) BLUE RIDGE MEDICAL GROUP INC	P	241,625	INTERCOMPANY ACTIVITY
(3) BLUE RIDGE MEDICAL GROUP INC	J	640,649	INTERCOMPANY ACTIVITY
(4) BLUE RIDGE CARDIOLOGY	L	1,274,423	INTERCOMPANY ACTIVITY
(5) BLUE RIDGE HEALTHCARE SYSTEMS INC	O	3,910,380	INTERCOMPANY ACTIVITY
(6)			

Part VI Unrelated Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 37.)

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

(a) Name, address, and EIN of entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Predominant income(related, unrelated, excluded from tax under sections 512-514)	(e) Are all partners section 501(c)(3) organizations?		(f) Share of total income	(g) Share of end-of-year assets	(h) Disproprtionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
				Yes	No			Yes	No		Yes	No	

Schedule R (Form 990) 2011

Part VII Supplemental Information

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

Identifier	Return Reference	Explanation	

Additional Data

Return to Form

Software ID:
Software Version:
EIN: 56-0529976
Name: GRACE HOSPITAL INC

Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations

(a) Name, address, and EIN of related organization	(b) Primary Activity	(c) Legal Domicile (State or Foreign Country)	(d) Exempt Code section	(e) Public charity status (if 501(c)(3))	(f) Direct Controlling Entity	g Section 512(b)(13) controlled organization	
VALDESE GENERAL HOSPITAL INC 720 MALCOLM BOULEVARD VALDESE, NC 28690 56-0634510	HEALTHCARE	NC	501(C)(3)	N/A	N/A		No
VALDESE NURSING HOME INC 95 LOCUST STREET RUTHERFORD COLLEGE, NC 28671 58-1978560	HEALTHCARE	NC	501(C)(3)	509(A)(2)	N/A		No
GRACE LIFECARE INC 500 LENOIR ROAD MORGANTON, NC 28655 56-1722754	HEALTHCARE	NC	501(C)(3)	509(A)(2)	N/A		No
GRACE NURSING CENTER INC 109 FOOTHILLS DRIVE MORGANTON, NC 28655 56-1838369	HEALTHCARE	NC	501(C)(3)	509(A)(2)	N/A		No
GRACE PROPERTIES INC 500 LENOIR ROAD MORGANTON, NC 28655 56-1727514	HEALTHCARE	NC	501(C)(3)	509(A)(3)	N/A		No
BLUE RIDGE FOUNDATION INC 2201 SOUTH STERLING STREET MORGANTON, NC 28655 58-2063920	HEALTHCARE	NC	501(C)(3)	509(A)(1)	N/A		No
BLUE RIDGE MEDICAL GROUP INC 2201 SOUTH STERLING STREET MORGANTON, NC 28655 02-0777195	HEALTHCARE	NC	501(C)(3)	509(A)(2)	N/A		No
BLUE RIDGE HEALTHCARE SYSTEMS INC 2201 SOUTH STERLING STREET MORGANTON, NC 28655 56-2150313	HEALTHCARE	NC	501(C)(3)	509(A)(3)	N/A		No
BLUE RIDGE MOBILE IMAGING LLC 2201 SOUTH STERLING STREET MORGANTON, NC 28655 02-0777199	HEALTHCARE	NC	501(C)(3)	N/A	N/A		No

BLUE RIDGE HEALTHCARE SYSTEM, INC.
D/B/A BLUE RIDGE HEALTHCARE

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

YEARS ENDED DECEMBER 31, 2011 AND 2010

BLUE RIDGE HEALTHCARE
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

CliftonLarsonAllen

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Blue Ridge HealthCare System, Inc.
d/b/a Blue Ridge HealthCare
Morganton, North Carolina

We have audited the accompanying consolidated balance sheets of Blue Ridge HealthCare System, Inc. d/b/a Blue Ridge HealthCare ("BRHC"), as of December 31, 2011 and 2010 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended These consolidated financial statements are the responsibility of BRHC's management Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S generally accepted auditing standards Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated balance sheets of Blue Ridge HealthCare System, Inc. d/b/a Blue Ridge HealthCare, as of December 31, 2011 and 2010, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with U.S generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental consolidating schedules on pages 31-39 are presented for purposes of additional analysis of the consolidated financial statements and are not a required part of the consolidated financial statements Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidating financial statements. The financial statements and certain additional procedures, including comparing and reconciling such financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
April 6, 2012

BLUE RIDGE HEALTHCARE
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,939,850	$ 2,184,221
Patient Accounts Receivable, Net of Allowance for Uncollectible Accounts of Approximately $13,350,000 in 2011 and $12,410,000 in 2010	32,456,634	30,054,050
Other Accounts Receivable	3,381,051	3,669,854
Inventories	2,737,593	2,860,113
Prepaid Expenses and Other	1,034,897	614,963
Funds Held by Trustee for Debt Service	3,832,790	4,093,923
Total Current Assets	47,382,815	43,477,124
ASSETS LIMITED AS TO USE		
Restricted by Donor	2,043,966	1,618,326
Statutory Operating Reserve	3,765,216	3,967,075
Board-Designated for Community Benefit	3,906,225	3,484,324
Board-Designated as Funded Depreciation	84,580,962	82,871,548
Board-Designated for Scholarships	129,354	129,338
Total Assets Limited as to Use	94,425,723	92,070,611
MARKETABLE SECURITIES	15,049,892	16,980,774
PROPERTY AND EQUIPMENT, NET	145,372,177	148,928,334
OTHER ASSETS, NET	6,989,914	3,873,268
Total Assets	$ 309,220,521	$ 305,330,111
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 13,530,704	$ 11,551,595
Accrued Expenses and Other Liabilities	14,387,871	12,491,587
Refundable Entrance Fees	49,633	49,633
Estimated Third-Party Reserves	6,411,524	6,155,876
Line of Credit	3,578,000	-
Current Portion of Long-Term Debt	2,163,377	3,822,841
Total Current Liabilities	40,121,109	34,071,532
LONG-TERM DEBT, NET OF CURRENT PORTION	83,498,051	85,469,908
REFUNDABLE ENTRANCE FEES, NET OF CURRENT PORTION	2,786,417	2,902,621
DEFERRED REVENUE FROM ENTRANCE FEES, NET OF CURRENT PORTION	8,728,362	9,195,526
Total Liabilities	135,133,939	131,639,587
NET ASSETS		
Unrestricted	172,481,243	171,426,666
Temporarily Restricted	730,905	1,389,424
Permanently Restricted	874,434	874,434
Total Net Assets	174,086,582	173,690,524
Total Liabilities and Net Assets	$ 309,220,521	$ 305,330,111

See accompanying Notes to Consolidated Financial Statements

BLUE RIDGE HEALTHCARE
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
REVENUES		
Net Patient Service Revenue	$ 217,023,417	$ 202,839,500
Other Revenue	10,208,592	8,920,038
Total Revenues	227,232,009	211,759,538
EXPENSES		
Employee Compensation	103,716,857	93,890,318
Medical and General Supplies	27,641,057	27,828,528
Purchased Services	17,431,117	15,409,460
Professional Fees	17,849,758	17,402,040
Provision for Uncollectible Accounts	29,184,999	27,085,968
Depreciation and Amortization	14,800,892	14,505,474
Interest	3,812,856	3,513,211
Other Expenses	11,604,142	11,663,183
Total Expenses	226,041,678	211,298,182
OPERATING INCOME	1,190,331	461,356
OTHER INCOME (LOSS)		
Investment Income, Net	7,214,036	4,377,359
Other, Net	223,102	(501,916)
Total Other Income, Net	7,437,138	3,875,443
EXCESS OF REVENUES OVER EXPENSES	8,627,469	4,336,799
UNREALIZED GAINS (LOSSES) ON INVESTMENTS, NET	(7,065,901)	6,281,594
CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENT	70,181	259,301
OTHER CONTRIBUTIONS	(577,172)	(641,073)
CHANGE IN UNRESTRICTED NET ASSETS	$ 1,054,577	$ 10,236,621

See accompanying Notes to Consolidated Financial Statements

BLUE RIDGE HEALTHCARE
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
UNRESTRICTED NET ASSETS		
Excess of Revenues Over Expenses	$ 8,627,469	$ 4,336,799
Unrealized Gains (Losses) on Investments, Net	(7,065,901)	6,281,594
Change in Fair Value of Derivative Financial Instrument	70,181	259,301
Other Contributions	(577,172)	(641,073)
Increase in Unrestricted Net Assets	1,054,577	10,236,621
TEMPORARILY RESTRICTED NET ASSETS		
Donor Restricted Gifts, Grants and Bequests	952,952	580,359
Investment Income and Unrealized Gains (Losses) on Investments, Net	(31,954)	21,481
Satisfaction of Donor-Imposed Restrictions	(1,579,517)	(377,628)
Increase in Temporarily Restricted Net Assets	(658,519)	224,212
CHANGE IN NET ASSETS	396,058	10,460,833
Net Assets - Beginning of Year	173,690,524	163,229,691
NET ASSETS - END OF YEAR	$ 174,086,582	$ 173,690,524

See accompanying Notes to Consolidated Financial Statements

BLUE RIDGE HEALTHCARE
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 396,058	$ 10,460,833
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities		
Amortization of Deferred Revenue from Entrance Fees	(1,791,378)	(1,509,844)
Non-Cash Gain on Rental Contract Conversion	(10,977)	-
Provision for Uncollectible Accounts	29,184,999	27,085,968
Depreciation and Amortization	14,800,892	14,550,302
Loss on Refunding Long-Term Debt	-	397,916
Change in Net Unrealized Gains (Losses) on Investments	7,141,115	(6,344,863)
Other Contributions	577,172	641,073
Change in Operating Assets and Liabilities		
Patient and Other Accounts Receivable, Net	(29,956,324)	(26,363,188)
Inventories	122,520	(239,334)
Prepaid Expenses and Other	(419,934)	259,002
Accounts Payable	3,190,034	(1,002,172)
Accrued Expenses and Other Liabilities	3,007,798	1,274,977
Estimated Third-Party Reserves	255,648	(1,071,397)
Other Assets and Liabilities	(3,221,926)	(846,353)
Net Cash Provided by Operating Activities	23,275,697	17,292,920
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Marketable Securities	(9,379,413)	(14,348,137)
Proceeds from Sales and Maturities of Marketable Securities	8,158,367	11,400,596
Purchases of Assets Whose Use is Limited	(14,672,757)	(18,801,737)
Proceeds from Sales and Maturities of Assets Whose Use is Limited	8,589,590	12,149,391
Purchases of Property and Equipment, Net	(11,139,455)	(6,226,279)
Net Cash Used in Investing Activities	(18,443,668)	(15,826,166)
CASH FLOWS FROM FINANCING ACTIVITIES		
Other Contributions	(577,172)	(641,073)
Refunds of Entrance Fees	(96,667)	(135,121)
Proceeds from Entrance Fees	1,207,390	1,281,266
Change in Due to/from Affiliates for Non-Operating Activities	(4,626,187)	1,923,064
Draws on Line of Credit	3,578,000	-
Issuance of Long-Term Debt	-	51,424,141
Repayments of Long-Term Debt	(2,561,764)	(56,130,984)
Net Cash Provided by (Used in) Financing Activities	(3,076,400)	(2,278,707)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,755,629	(811,953)
Cash and Cash Equivalents - Beginning of Year	2,184,221	2,996,174
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,939,850	$ 2,184,221
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 3,540,997	$ 2,440,908
Acquisitions of Property and Equipment Included in Current Liabilities	$ 593,839	$ 454,321

See accompanying Notes to Consolidated Financial Statements

NOTE 1 ORGANIZATION

The accompanying consolidated financial statements include the balance sheets, results of operations and cash flows of Blue Ridge HealthCare System, Inc. d/b/a Blue Ridge HealthCare ("BRHC") and its affiliates. BRHC provides health care services to the residents of Burke County, North Carolina and surrounding areas. BRHC includes one affiliate, Blue Ridge HealthCare Foundation, Inc., which is not a member of the Obligated Group as defined in BRHC's Master Trust Indenture. Such affiliate accounts for less than 1 percent of total revenue and less than 1 percent of total assets of BRHC for each of the years ended December 31, 2011 and 2010. The entities and activities comprising BRHC consist of the following:

Blue Ridge HealthCare System, Inc.

On August 2, 1999, Grace Hospital, Incorporated ("Grace"), Valdese General Hospital, Incorporated ("Valdese") and The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas HealthCare System ("CHS") entered into an Integration Agreement, effective December 8, 1999 (the "Agreement"), to integrate the functions of Grace and Valdese so that they are operated as a unified health care delivery system through the formation of Blue Ridge HealthCare System, Inc., a North Carolina non profit, nonstock, nonmember corporation, exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Service ("IRS") Code. Under the Agreement, BRHC does not have any direct ownership of Grace or Valdese, and Grace and Valdese continue to own and exercise ultimate control over their assets and maintain the existing identity of their facilities.

Pursuant to the Agreement beginning on January 1, 2000, Grace and Valdese share the consolidated annual excess of revenues over expenses (excluding investment income and extraordinary items) of BRHC (including Blue Ridge Medical Group, Inc. but excluding Blue Ridge HealthCare Foundation, Inc.) based on predetermined contribution percentages of 63 percent for Grace and 37 percent for Valdese. Grace and Valdese are also responsible for funding their share of the total consolidated capital requirements of BRHC, using the respective contribution percentages.

Effective December 8, 1999, BRHC entered into a Management Services Contract (the "Contract") with CHS to manage BRHC on a day-to-day basis. The terms of the Contract call for BRHC to pay CHS an annual management fee based upon BRHC's net operating revenues In addition, CHS is required to furnish BRHC with a Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. BRHC reimburses CHS for the salary and benefits' costs of these individuals. The Contract terminates upon the termination of the Agreement unless earlier terminated for cause.

In 2002, the Agreement, as well as the articles of incorporation and bylaws of BRHC, Grace and Valdese, were amended to restructure the governance of BRHC, Grace and Valdese Subsequent to the restructuring, Grace operates under the leadership of the BRHC Board of Directors and the Grace Community Council. Likewise, Valdese operates under the leadership of the BRHC Board of Directors, Carolinas Hospital Network, Inc ("CHN"), and the Valdese Community Council.

NOTE 1 ORGANIZATION (CONTINUED)

Blue Ridge HealthCare System, Inc. (Continued)

As a result of the agreement, the BRHC Board of Directors has the authority to take action on all matters relating to the operation of BRHC with the exception of reserve powers retained by the Grace and Valdese Community Councils and CHS that include approving new participants in BRHC, amendments to corporate documents affecting board composition, amendments to the Agreement and the sale, merger, liquidation or dissolution of any entity.

As a result of the governance restructuring, the BRHC Board of Directors is composed of 12 to 16 members nominated by a BRHC nominating committee, one of which is the CEO of BRHC, and is appointed by BRHC and approved by the Grace and Valdese Community Councils In addition, CHS appoints three to five nonvoting members

The governance restructuring places Grace and Valdese under the common management of BRHC and gives BRHC the ability to determine the direction of management and policies of Grace and Valdese.

Grace

Grace Hospital, Incorporated is a non profit North Carolina corporation qualified as a tax-exempt organization under IRS Code Section 501(c)(3) Grace owns a 184 licensed-bed acute care facility known as Grace Hospital Grace also includes the following active, wholly-owned subsidiaries:

Grace LifeCare, Inc. is a non profit North Carolina corporation qualified as a tax-exempt organization under IRS Code Section 501(c)(3). Grace LifeCare, Inc. operates a continuing care retirement community in Morganton, North Carolina. Grace LifeCare, Inc. currently offers 129 residential apartment units, 27 duplex cottages, a 72-bed health care center and other amenities designed to make retirement living more enjoyable

Grace Nursing Center, Inc. is a non profit North Carolina corporation qualified as a tax-exempt organization under IRS Code Section 501(c)(3). Grace Nursing Center, Inc. operates a 120 licensed-bed nursing home in Morganton, North Carolina.

Valdese

Valdese General Hospital, Incorporated is a non profit North Carolina corporation qualified as a tax-exempt organization under IRS Code Section 501(c)(3) Valdese owns a 131 licensed-bed acute care facility known as Valdese Hospital. Valdese also includes the following active, wholly-owned subsidiary

Valdese Nursing Home, Inc. is a non profit North Carolina corporation qualified as a tax-exempt organization under IRS Code Section 501(c)(3). Valdese Nursing Home, Inc. operates a 104 licensed-bed nursing home in Valdese, North Carolina.

NOTE 1 ORGANIZATION (CONTINUED)

Valdese (Continued)

Valdese is owned by CHS whereby a subsidiary of CHS, CHN, is the sole member of Valdese Due to its relationship to CHS, Valdese is also deemed to be a Section 115 governmental entity. In addition, Valdese is obligated to pay CHS an annual network development contribution of 10 percent of earnings before interest, taxes, depreciation and amortization. This contribution has been included as other contributions in the accompanying consolidated financial statements.

Blue Ridge Medical Group, Inc.

Blue Ridge Medical Group, Inc. (the "Medical Group") is a non profit North Carolina corporation qualified as a tax-exempt organization under IRS Code Section 501(c)(3). The Medical Group operates physician office practices, clinics and other related health care facilities

Blue Ridge HealthCare Foundation, Inc.

Blue Ridge HealthCare Foundation, Inc. (the "Foundation") is a non profit North Carolina corporation qualified as a tax-exempt organization under IRS Code Section 501(c)(3) The Foundation solicits funds for Grace and Valdese.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the consolidated accounts of BRHC, Grace, Valdese, the Foundation, and the Medical Group. All material intercompany accounts and transactions have been eliminated

Use of Estimates

The preparation of financial statements in conformity with U S. generally accepted accounting principles 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

Cash Equivalents

All liquid investments with a maturity of three months or less at the time of purchase and are not limited as to their use are considered to be cash equivalents.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

BRHC provides an allowance for doubtful accounts using management's judgment and historical experience. Patients are not required to provide collateral for services rendered Payment for services is generally required within 30 days from receipt of invoice or claim submitted. Self-pay accounts and balances after insurance past due more than 90 days are classified as uncollectible Federal regulations require a 120-day billing period for Medicare accounts. In addition, an allowance is estimated for other accounts based on historical experience of BRHC. At December 31, 2011 and 2010, the allowance for uncollectible accounts was approximately $13,350,000 and $12,410,000, respectively.

Inventories

Inventories are stated at the lower of average cost or market

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustee for debt service pursuant to agreements entered into in connection with the issuance of revenue bonds (see Note 6), statutory operating reserves maintained in connection with the operations of a continuing care retirement community, assets restricted by donors, designated assets set aside at the discretion of BRHC's Board of Directors as funded depreciation for the purchase of property and equipment or the payment of debt service and for scholarships to be awarded in the future.

Property and Equipment, Net

Property and equipment are recorded at cost. Donated property and equipment are stated at the estimated fair value at the date of donation. Ordinary repairs and maintenance costs are expensed as incurred while significant improvements, renovation and replacements are capitalized. Interest cost incurred on borrowed funds during the period of construction is capitalized as a component of the cost of acquiring those assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

Land Improvements	5-40 years
Buildings and Building Improvements	5-40 years
Equipment	3-25 years

Other Assets

Other assets consist primarily of investments in other entities, goodwill and bond issuance costs BRHC accounts for its investments in other entities under the equity method of accounting.

The excess of purchase price over the fair values of identifiable net assets acquired has been allocated to goodwill. Management periodically evaluates the carrying value of goodwill based on an analysis of estimated undiscounted operating earnings from the operations of each specific business. Any events or circumstances occurring during the year or future years that might have an impact on such carrying value are considered. No adjustment has been made to the carrying value of goodwill at December 31, 2011 or 2010.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Assets (Continued)

Bond issuance costs are being amortized over the life of the related bonds using the effective interest method.

Net Assets

Net assets and revenues, gains and losses, are classified based on the existence or absence of donor imposed restrictions. Net assets are segregated into three net asset groups:

Unrestricted – Net assets consisting of all resources that have no donor-imposed restrictions.

Temporarily restricted – Net assets consisting of contributions and investment income for which use is limited through donor-imposed stipulations that may expire with the passage of time or as the result of fulfillment by action of BRHC When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period assets are acquired or placed in service.

Permanently restricted – Net assets consisting of contributions for which BRHC's use is permanently limited through donor-imposed stipulations.

Net Patient Service Revenue

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 the related services are rendered and adjusted in future periods as final settlements are determined.

Operating Revenues and Expenses

For purposes of financial reporting, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses.

Excess of Revenues Over Expenses

The consolidated statements of operations include the excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include net 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 purpose of acquiring such assets) and changes in value of derivative financial instruments that qualify as a fair value or cash flow hedge.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Obligation to Provide Future Services

Grace LifeCare, Inc. calculates the present value of the estimated cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees and the present value of estimated periodic service fees in accordance with the provisions of the AICPA *Audit and Accounting Guide, Health Care Organizations*. If the present value of the cost of future services and use of facilities exceeds the deferred revenue from entrance fees and the present value of periodic fees, a liability is recorded (obligation to provide future services). No liability has been recorded for the years ended December 31, 2011 and 2010, because the estimated present value of the cost of future services and use of facilities is less than deferred revenue from entrance fees and the present value of estimated periodic service fees.

Derivative Financial Instruments and Hedging Activities

Changes in the fair value of derivative financial instruments that do not qualify as a fair value hedge or cash flow hedge are recognized as a component of other income. For those that do qualify as a fair value hedge or cash flow hedge, changes in market value are recorded directly to net assets.

Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value

Cash and Cash Equivalents, Patient and Other Receivables and Accounts Payable - The carrying amount approximates fair value because of the short-term nature of these instruments.

Assets Whose Use is Limited and Marketable Securities - Fair values, which are the amounts reported on the accompanying consolidated balance sheets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Long-Term Debt - Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Concentrations of Credit Risk

BRHC and the Foundation routinely invest surplus operating funds in interest-bearing accounts at financial institutions which management believes are of high credit quality. At times, these funds may exceed the $250,000 insured by the Federal Depository Insurance Corporation. Management believes that these financial institutions' strong credit ratings result in only minimal credit risk related to those deposits.

BRHC primarily serves the residents of Burke and surrounding counties in North Carolina and grants credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk (Continued)

The mix of receivables from patients and third-party payors at December 31, 2011 and 2010 is as follows:

	2011	2010
Medicare	34 %	38 %
Medicaid	9	9
Other Third-Party Payors	23	22
Patients	34	31
	100 %	100 %

Income Taxes

All entities comprising BRHC are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements

BRHC has adopted the income tax standard regarding the recognition and measurement of uncertain tax positions, which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be finalized. BRHC has determined that there are no uncertain tax positions for the years ended December 31, 2011 and 2010.

Reclassifications

Certain amounts in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation for comparative purposes with no effect on previously reported excess of revenues over expenses or net assets.

Subsequent Events

In preparing these financial statements, BRHC has evaluated events and transactions for potential recognition or disclosure through April 6, 2012 the date the consolidated financial statements were available to be issued

Adoption of New Accounting Guidance

In August 2010, the FASB issued ASU 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*, which requires that cost be used as the measurement basis financial assistance disclosure purposes and that cost be identified as the direct and indirect costs of providing the financial assistance The amendment also requires the disclosure of the method used to identify or determine such costs. This amendment became effective for BRHC's fiscal year ended December 31, 2011. The adoption of the amendment did not have a material impact on our balance sheets, results of operations, or cash flows.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Guidance (Continued)

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries,* which clarifies that a health care entity may not net insurance recoveries against related claim liabilities. The amendment requires organizations to determine the amount of the claim liability without consideration of insurance recoveries, meaning that any receivable related to insurance recoveries must be recorded separately from the claim liability. The amendment became effective for the year ended December 31, 2011 The adoption of this amendment did not have a material impact to our balance sheets, results of operations, or cash flow.

Future Accounting and Reporting Requirements

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, *Improving Disclosures about Fair Market Value Measurements*, which amends ASC 820, *Fair Value Measurements and Disclosures*, to require enhanced disclosures about transfers into and out of Levels 1 and 2 as well as separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 fair value measurements The amendment also clarifies existing fair value disclosures about the level of disaggregation and about the inputs and valuation technique used to measure fair value BRHC adopted the requirement for the separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements for the year ended December 31, 2010. The adoption of these provisions impacted our fair value disclosures only and had no impact to our balance sheets, results of operations, or cash flows The new requirement for the separate disclosure of the purchases, sales, issuances, and settlements in the roll forward of activity for Level 3 fair value measurements will be adopted for the year ending December 31, 2012. The adoption of this amendment is expected to impact our fair value disclosures only and will not have a material impact to our balance sheets, results of operations, or cash flows.

In July 2011, the FASB issued 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*, which requires health care entities to reclassify the provision for bad debts from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts) in the Statement of Operations when the ultimate collection of the amounts billed or billable cannot be determined at the time patient services are rendered. Additionally, the amendment requires enhanced disclosure about the policies for recognizing revenue and assessing bad debts as well as both qualitative and quantitative information about significant changes in the allowance for doubtful accounts The amendment will be effective for the year ending December 31, 2012. Management is currently evaluating the potential impact of this amendment.

NOTE 3 ASSETS LIMITED AS TO USE AND MARKETABLE SECURITIES

The composition of assets limited as to use, at fair value, at December 31, 2011 and 2010 is as follows:

	2011	2010
Funds Held by Trustee for Debt Service		
Cash and Cash Equivalents	$ 3,832,790	$ 4,093,923
Restricted by Donor		
Equity Securities	2,043,966	1,618,326
Statutory Operating Reserve		
Fixed Income	2,504,622	2,638,898
Equities	1,260,594	1,328,177
	3,765,216	3,967,075
Board-Designated for Community Benefit		
Cash and Cash Equivalents	3,906,225	3,484,324
Board-Designated as Funded Depreciation		
Cash and Cash Equivalents	863,497	909,179
Corporate Obligations and Fixed Income Securities	36,938,011	34,353,772
Equity Securities	28,539,181	29,048,450
Alternative Investments	18,240,273	18,560,147
	84,580,962	82,871,548
Board-Designated for Scholarships - Cash and Cash Equivalents	129,354	129,338
	98,258,513	96,164,534
Less: Current Portion of Assets Limited as to Use - Funds Held by Trustee for Debt Service	(3,832,790)	(4,093,923)
	$ 94,425,723	$ 92,070,611

Marketable securities are stated at fair value and consisted of the following at December 31, 2011 and 2010:

	2011	2010
Cash and Cash Equivalents	$ 407,259	$ 389,238
Equity Securities	14,642,633	16,591,536
	$ 15,049,892	$ 16,980,774

NOTE 3 ASSETS LIMITED AS TO USE AND MARKETABLE SECURITIES (CONTINUED)

Investment income (loss), net consists of the following for the years ended December 31, 2011 and 2010:

	2011	2010
Interest and Dividend Income	$ 2,630,239	$ 2,758,657
Other Than Temporary Unrealized Losses on Investments	(142,090)	(18,414)
Net Realized Gains (Losses) on Sales of Investments	4,725,887	1,637,116
	$ 7,214,036	$ 4,377,359

The following table summarizes BRHC's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in an unrealized loss position at December 31, 2011:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate Bonds	$ -	$ -	$ 1,040,865	$ (9,135)	$ 1,040,865	$ (9,135)
Equity Securities	16,030,522	(740,060)	8,011,416	(676,295)	24,041,938	(1,416,355)
	$ 16,030,522	$ (740,060)	$ 9,052,281	$ (685,430)	$ 25,082,803	$ (1,425,490)

Total unrealized losses at December 31, 2011 and December 31, 2010 amounted to approximately $1,425,000 and $579,000, respectively. Of these amounts, approximately $685,000 and $521,000 related to losses which extend over one year as of December 31, 2011 and December 31, 2010, respectively. Unrealized investment losses are expected to be recoverable in future periods and are not deemed by management to be unrecoverable due to the length or the duration of the impairment and/or the amount of impairment at December 31, 2011. BRHC has the intent and ability to hold these investments until further market recovery occurs.

BRHC reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of its alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed

NOTE 3 ASSETS LIMITED AS TO USE AND MARKETABLE SECURITIES (CONTINUED)

Interests in alternative investments represented approximately 16 percent of assets limited as to use and marketable securities at December 31, 2011 and 2010. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and non-marketable investments), and non-disclosure of portfolio composition.

The estimated fair value of certain alternative investments, such as hedge funds, is based on valuations provided by external investment managers. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. BRHC emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – valuation based on quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 – valuation based on observable inputs other than those included in Level 1.

Level 3 – valuation based unobservable inputs based on data not available to third parties outside the organization.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety

Additionally, from time to time, BRHC may be required to record at fair value other assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets. Nonfinancial assets measured at fair value on a nonrecurring basis would include nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, other real estate owned, and other intangible assets measured at fair value for impairment assessment.

NOTE 3 ASSETS LIMITED AS TO USE AND MARKETABLE SECURITIES (CONTINUED)

BRHC also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. BRHC has not elected to measure any existing financial instruments at fair value; however, may elect to measure newly acquired financial instruments at fair value in the future.

Securities available for sale 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, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. Securities valued using Level 2 inputs include private collateralized mortgage obligations, municipal bonds, and corporate debt securities.

The following table presents the assets and liabilities carried at fair value on a recurring basis as of December 31, 2011 by fair value hierarchy level, as described above:

	Level 1	Level 2	Level 3	Total
Assets				
Funds Held by Trustee for Debt Service				
Cash and Cash Equivalents	$ 3,832,790	$ -	$ -	$ 3,832,790
Assets Limited as to Use				
Cash and Cash Equivalents	4,899,076	-	-	4,899,076
Equity Securities	31,843,741	-	-	31,843,741
Corporate Obligations and Fixed Income Securities	39,442,633	-	-	39,442,633
Alternative Investments	-	-	18,240,273	18,240,273
Marketable Securities				
Cash and Cash Equivalents	407,259	-	-	407,259
Equity Securities	14,642,633	-	-	14,642,633
Other Assets				
Goodwill	-	-	4,873,373	4,873,373
Total Assets Measured at Fair Value	$ 95,068,132	$ -	$ 23,113,646	$ 118,181,778
Liabilities				
Long-Term Debt	$ 83,699,790	$ -	$ -	$ 83,699,790
Total Liabilities Measured at Fair Value	$ 83,699,790	$ -	$ -	$ 83,699,790

NOTE 3 ASSETS LIMITED AS TO USE AND MARKETABLE SECURITIES (CONTINUED)

Financial instruments classified as Level 3 in the fair value hierarchy represent goodwill and alternative investments in which management used at least one unobservable input in the valuation model. The following table represents a reconciliation of activity for such instruments on a net basis for the year ended December 31, 2011:

Alternative Investments Balance at December 31, 2010	$ 18,560,147
Purchases of Alternative Investments	2,089,000
Unrealized Losses on Alternative Investments, Net	(4,503,971)
Realized Gains on Alternative Investments, Net	2,095,097
Alternative Investments Balance at December 31, 2011	$ 18,240,273
Goodwill Balance at December 31, 2010	$ 1,013,373
Acquisition of Goodwill	3,860,000
Goodwill Balance at December 31, 2011	$ 4,873,373

NOTE 4 PROPERTY AND EQUIPMENT

The components of property and equipment are as follows at December 31, 2011 and 2010:

	2011	2010
Land and Land Improvements	$ 5,097,366	$ 5,097,366
Buildings and Building Improvements	192,678,294	192,024,832
Equipment	125,684,905	114,539,280
	323,460,565	311,661,478
Less Accumulated Depreciation and Amortization	(179,621,263)	(165,713,774)
	143,839,302	145,947,704
Construction in Process	1,532,875	2,980,630
Property and Equipment, Net	$ 145,372,177	$ 148,928,334

For the years ended December 31, 2011 and 2010, depreciation expense was approximately $14,696,000 and $14,393,000, respectively.

NOTE 5 LINE OF CREDIT

BRHC has a $5,000,000 unsecured line of credit with a financial institution which expires on March 1, 2013. Interest is charged at the monthly London Inter-Bank Offered Rate ("LIBOR") plus 2.0 percent (2.24% at December 31, 2011). There was $3,578,000 and $0 outstanding on the line of credit at December 31, 2011 and 2010, respectively, which is reported as current liabilities in the accompanying consolidated balance sheets

NOTE 6 LONG-TERM DEBT

A summary of long-term debt at December 31, 2011 is as follows:

	Bonds Payable	Installment Purchase Agreements	Obligations Under Capital Lease	Total
Total Principal Outstanding	$ 83,750,000	$ 361,884	$ 376,847	$ 84,488,731
Less				
Current Portion	(1,915,000)	(111,213)	(137,164)	(2,163,377)
Plus				
Unamortized Premium	1,172,697	-	-	1,172,697
	$ 83,007,697	$ 250,671	$ 239,683	$ 83,498,051

Bonds Payable

Bonds payable consisted of the following at December 31, 2011 and 2010:

	2011	2010
BRHS:		
North Carolina Medical Care Commission Health Care Facilities Revenue Bonds Series 2005A ("2005A Bonds"), Maturities in Varying Annual Amounts through June 2032, Bearing Interest at 4% to 5%	$ 35,000,000	$ 35,000,000
North Carolina Medical Care Commission Health Care Facilities Refunding Revenue Bonds Series 2010A ("2010A Bonds"), Maturities in Varying Annual Amounts through January 2036, Bearing Interest at 2 5% to 5%.	48,750,000	51,195,000
	83,750,000	86,195,000
Less Current Portion	(1,915,000)	(2,445,000)
Plus Net Unamortized Premium	1,172,697	1,247,427
	$ 83,007,697	$ 84,997,427

In 1996, Grace issued $26,240,000 of Series 1996 Revenue Bonds for (1) construction of a medical office building; (2) financing of medical equipment; and (3) advance refunding of $20,350,000 of Series 1987 Revenue Bonds. As of December 31, 2009 there was $13,455,000 aggregate principal outstanding on the Series 1996 Revenue Bonds. During 2010 Grace made a principal payment of $1,460,000 and the remaining $11,995,000 was refunded through proceeds from the issuance of Series 2010A Revenue Bonds on October 7, 2010

NOTE 6 LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

In 2005, BRHC issued $35,000,000 of Series 2005A Revenue Bonds for partial funding of major renovation and redevelopment projects on the Grace and Valdese campuses and $43,075,000 of Series 2005B Revenue Bonds for (1) partial funding of major renovation and redevelopment projects on the Grace and Valdese campuses, (2) current refunding of $18,840,000 of Grace Series 2000 Revenue Bonds; and (3) current refunding of $8,240,000 of Valdese Series 1998 Revenue Bonds. As of December 31, 2009 there was $39,400,000 aggregate principal outstanding on the 2005B Bonds, during 2010 BRHC made a principal payment of $650,000 and the remaining $38,750,000 was refunded through proceeds from the issuance of Series 2010A Revenue Bonds on October 7, 2010.

In 2010, BHRC issued $51,195,000 of Series 2010A Refunding Revenue Bonds for the advance refunding of the remaining Series 1996 Revenue Bonds and Series 2005B Revenue Bonds. In connection with refunding the Series 1996 and 2005B Bonds, the System recognized a loss on refunding of approximately $398,000. Under the terms of an Amended and Restated Master Trust Indenture adopted by BRHC, Grace and Valdese in June 2005, and Loan Agreements with the North Carolina Medical Care Commission, BRHC, Grace, Valdese and BRMG are jointly and severally liable for debt service on the 2005A and 2010A Bonds. In addition, BRHC is required to comply with various covenants including the maintenance of a defined level of consolidated long-term debt service coverage. Substantially all of the revenues of BRHC, Grace, Valdese and BRMG are pledged as security for the 2005A and 2010A Bonds. In addition, the 2005A Bonds are further secured by a financial guaranty insurance policy issued by Financial Guaranty Insurance Company ("FGIC"). As of December 31, 2011, BRHC was in compliance with the covenants, noted above.

In December 2000, Grace entered into a 10-year interest rate swap agreement for a portion of its 2000 Bonds. At December 31, 2011 and 2010, the fair value of the interest rate swap agreement was a liability of approximately $0 and $70,000, respectively, and is included in other liabilities in the accompanying consolidated balance sheets. With the refunding of the 2005B bonds during 2010, the interest rate swap agreement expired on January 1, 2011. Because the interest rate swap was not designated as a hedging instrument, BRHC has recognized the increase (decrease) in the fair value of the interest rate swap agreement of approximately $70,000 and $259,000, for the years ended December 31, 2011 and 2010, respectively, as other income (loss) in the accompanying consolidated statements of operations.

At December 31, 2011 and 2010, the fair market value of the Bonds was approximately $83,209,000 and $92,810,000, respectively.

Installment Purchase Agreements

During 2009, BRHC entered into an agreement to purchase new phone equipment. The agreement requires 60 monthly payments of $10,689, including interest at 2.23%, through December 2014.

NOTE 6 LONG-TERM DEBT (CONTINUED)

Obligations Under Capital Lease

BRHC leases certain equipment under leases classified as obligations under capital lease The capital leases are collateralized by the equipment under the lease

Maturities of Long-Term Debt

Future scheduled principal maturities of long-term debt at December 31, 2011 are as follows:

Year Ending December 31,	Bonds Payable	Installment Purchase Agreements	Obligations Under Capital Lease	Total
2012	$ 1,915,000	$ 111,213	$ 137,164	$ 2,163,377
2013	1,975,000	123,940	137,715	2,236,655
2014	2,045,000	126,731	101,968	2,273,699
2015	2,130,000	-	-	2,130,000
2016	2,215,000	-	-	2,215,000
Thereafter	73,470,000	-	-	73,470,000
	$ 83,750,000	$ 361,884	$ 376,847	$ 84,488,731

NOTE 7 NET PATIENT SERVICE REVENUE

BRHC has agreements with third-party payors that provide for payments to BRHC at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare

Acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per inpatient discharge and per outpatient encounter or procedure. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors and cover both operating and capital costs BRHC is also reimbursed for certain cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by BRHC and reviews thereof by the Medicare fiscal intermediary In the opinion of management, adequate provisions have been made for adjustments, if any, that may result from such reviews.

Medicaid

The North Carolina Department of Human Resources Division of Medical Assistance reimburses costs for Medicaid services using a payment-per-discharge system similar to that used by the Medicare program. BRHC is reimbursed at a tentative rate with final settlement determined after it submits its annual Medicaid cost reports In the opinion of management, adequate provisions have been made for adjustments, if any, that may result from such reviews.

Payments received, or to be received, under these and other payment arrangements with third-party payors were less than amounts due at established rates by approximately $368,414,000 and $316,753,000 for the years ended December 31, 2011 and 2010, respectively.

NOTE 7 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicaid (Continued)

BRHC has, since 1996, participated in the North Carolina Medicaid Reimbursement Initiative (the "MRI Plan"). In connection therewith, BRHC received and recognized as net patient service revenue $2,725,000 and $2,968,000 from the MRI Plan during the years ended December 31, 2011 and 2010. In 2010, the System recognized an additional $824,000 as net patient service revenue from the elimination of reserves for MRI Plan years 2005 through 2009, which management determined were no longer necessary based on several facts, primarily written confirmation from the State in July 2010 that it would not retrospectively settle any of these plan years. Furthermore, the North Carolina Division of Medical Assistance (NCDMA) completed Disproportionate Share Hospital (DSH) audits through 2007. Those audits show no overpayment in aggregate based on the Centers for Medicare and Medicaid Services (CMS) Final Regulations published in the December 19, 2008 Federal Register.

NOTE 8 COMMUNITY BENEFIT

BRHC's cost or "investment in" its mission to create and operate a comprehensive system to provide health care and related services, including education and research programs, for the benefit of the people it serves, is measured using the following categories of community benefit:

- Costs of financial assistance to indigent patients – Includes the cost of services provided to patients who meet certain criteria under the BRHC financial assistance policies, which provide care without charge or at discounted rates to uninsured patients. Key elements used to determine eligibility for financial assistance include a patient's demonstrated ability to pay based on family size and household income relative to Federal income poverty guidelines.

- Costs of discounts extended to uninsured patients and bad debt costs by patients who do not pay for services – Includes the cost of services provided to uninsured or underinsured patients and to patients who otherwise do not pay for their health care services.

- Losses incurred by serving Medicare and Medicaid patients – Represents the unreimbursed cost of services provided to patients who qualify for Federal and/or state government health care benefits.

- Community Benefit Programs – Includes the unreimbursed cost of various education and research programs, non-billed medical services, in-kind donations, and other services that meet a strong community need, but do not pay for themselves and would be cut based solely on financial considerations alone.

NOTE 8 COMMUNITY BENEFIT (CONTINUED)

The total estimated costs of the aforementioned programs and services that benefit the community is as follows for the years ended December 31, 2011 and 2010:

	2011	2010
Costs of Financial Assistance to Indigent Patients, Calculated Using Applicable Cost to Charge Ratios	$ 5,971,480	$ 4,874,829
Costs of Discounts Extended to Uninsured Patients	3,481,020	3,101,002
Bad Debt Costs by Patients Who Do Not Pay for Services	9,595,481	9,193,118
Losses Incurred by Serving Medicaid and Medicare Patients	39,781,784	22,765,824
Community Benefit Programs	846,846	580,341
	$ 59,676,611	$ 40,515,114

NOTE 9 EMPLOYEE BENEFIT PLANS

Defined Contribution Savings Plan

BRHC provides a defined contribution employee savings plan that covers substantially all full-time employees. BRHC has the option to match employee contributions in varying percentages of each covered employee's salary. For the period June 2009 through December 2009, BRHC elected to suspend making matching contributions to the plan During the years ended December 31, 2011 and 2010, BRHC contributed approximately $1,282,000 and $612,000, respectively, to the plan

NOTE 10 REFUNDABLE ENTRANCE FEES

As a part of the acquisition of Grace LifeCare, Inc., Grace agreed with the existing residents (residents living in the facility on or prior to February 19, 1991), and the estates or successors to the interest of former residents, that Grace LifeCare, Inc. would assume the obligations of the former owner and repay entrance fee refunds under their respective residency agreements. Prior to Grace LifeCare, Inc. assuming the obligations of the former owner, the residency agreements were modified to provide for the refund of entrance fees under the residency agreements in 10 equal annual installments on a noninterest-bearing basis or a single lump-sum payment of 65 percent of the contracted amount, conditioned upon the resale and occupancy by a subsequent resident.

At December 31, 2011 and 2010, refundable entrance fees for which annual installments are payable within the next 12 months totaled approximately $50,000. Grace LifeCare, Inc. offers an immediate reduced payout on this group of contracts. Under this plan, Grace LifeCare, Inc would repay a calculated percentage of the face value of the entrance fee immediately upon resale and re-occupancy by a subsequent resident

NOTE 10 REFUNDABLE ENTRANCE FEES (CONTINUED)

In addition, Grace LifeCare, Inc. currently offers four other entrance fee plans. Descriptions of these plans are as follows:

Lifecare and Standard Plans

These plans prorate the reimbursement for any resident leaving the retirement community for any reason within 25 months of occupancy. Under these plans, the entrance fee is amortized at 4 percent per month during the initial 25 months of occupancy. No refund is available after this initial period.

Adult Care Plan

This plan allows residents to enter the assisted living area of the community. The entrance fees associated with this plan as of December 31, 2011 and 2010 were $12,000 and are fully amortized 30 days after occupancy. No refund is available after this initial period. The entrance fee is recognized as revenue over the life expectancy of the related resident.

Lease Plan

This plan allows for residents to enter the community paying only a monthly rental fee. At December 31, 2011 and 2010, entrance fees associated with this plan were $12,000 and were recognized as revenue when received. There are no other entrance fees or deferred revenues associated with this plan.

Plan Options

Under either of the LifeCare and Standard plans described above, Grace LifeCare, Inc offers two additional options:

Fifty Percent Option - This option prorates the reimbursement for any resident leaving the retirement community for any reason during the first 12 months at 4 percent per month After 12 months of occupancy, the refund is never less than 50 percent of the entrance fee paid.

Ninety Percent Option - This option prorates the reimbursement for any resident leaving the retirement community for any reason during the first three months (at 4 percent per month for the first two months and at 2 percent for the third month) After two and one-half months of occupancy, the refund is never less than 90 percent of the entrance fee paid

NOTE 10 REFUNDABLE ENTRANCE FEES (CONTINUED)

Plan Options (Continued)

A summary of refundable fees at December 31, 2011 and 2010 is as follows:

	2011	2010
Fees Refundable to Residents Executing Continuing Care Agreements Prior to February 19, 1991	$ 290,287	$ 339,920
Fees Refundable Under the 90% Option Agreements	1,404,153	1,416,154
	1,694,440	1,756,074
Fees Refundable Under the LifeCare Plan Agreements	984,363	800,287
Fees Refundable Under the Standard Plan Agreements	157,247	395,893
	1,141,610	1,196,180
	2,836,050	2,952,254
Less Current Portion	(49,633)	(49,633)
Long-Term Portion	$ 2,786,417	$ 2,902,621

NOTE 11 DEFERRED REVENUE FROM ENTRANCE FEES

As of December 31, 2011 and 2010, Grace LifeCare, Inc.'s total cumulative nonrefundable entrance fees of approximately $17,016,000 and $17,343,000, respectively, are recognized over the estimated life expectancy of the related residents. Accumulated income recognized as of December 31, 2011 and 2010 was approximately $8,288,000 and $8,147,000, respectively, resulting in deferred revenue from entrance fees, net of current portion, of approximately $8,728,000 and $9,196,000, respectively. Revenue of approximately $1,791,000 and $1,510,000 was recognized as Other Revenue for the years ended December 31, 2011 and 2010, respectively.

NOTE 12 STATUTORY OPERATING RESERVE

Under regulations of the North Carolina Insurance Commission effective in March 1997, continuing care retirement communities are required to maintain an operating reserve equal to 25 percent of certain occupancy costs projected for the 12-month period following the period covered by the most recent annual statement filed with the Department of Insurance If occupancy levels are less than 90 percent, the operating reserve requirement is 50 percent of certain occupancy costs Grace LifeCare, Inc.'s occupancy level was less than 90 percent at December 31, 2011 and 2010. The statutory operating reserve required at December 31, 2011 and 2010 was approximately $3,765,000 and $3,967,000, respectively.

NOTE 13 RESTRICTED NET ASSETS

Endowment Funds

BRHC has several endowment funds, the income of which may be expended for specific purposes During 2009, BRHC adopted the provisions of the financial accounting standard for endowments of not-for-profit organizations (the "UPMIFA Standard") with respect to the accounting for the corpus and income recognition on endowment funds as follows

Corpus

Endowment funds include: (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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 endowment. BRHC consults with legal counsel on the interpretation of UPMIFA with regard to preserving the fair value of original gifts as of the gift date of donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

Income

Income earned on endowment funds that is not required by the donor to be added to the corpus of the endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by BRHC in a manner consistent with the standard of prudence prescribed in UPMIFA. BRHC considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of BRHC and the donor restricted endowment fund
- General economic conditions
- The expected total return from income and the appreciation of investments
- Other resources of BRHC
- The investment policy of BRHC

Investment Objectives and Strategies

BRHC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that BRHC must hold in perpetuity or for a donor-specified period Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve and grow capital, strive for consistent absolute returns, preserve purchasing power by striving for long-term returns which either match or exceed the set payout, fees and inflation without putting the principal value at imprudent risk, and diversify investments consistent with commonly accepted industry standards to minimize the risk of large losses

To satisfy its long-term rate of return objectives, BRHC 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) Management targets a diversified asset allocation that meets BRHC's long-term rate-of-return objectives while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle

NOTE 13 RESTRICTED NET ASSETS (CONTINUED)

Endowment Funds (Continued)

Appropriation Policy

BRHC's appropriation or spending policy is consistent with its objective to preserve the fair value of the original gift of the endowment assets held in perpetuity as well, as to provide additional real growth through new gifts and investment return.

Deficiencies

From time to time, the fair value of assets in endowment funds may fall below the required level stipulated by the donor. In accordance with the UPMIFA Standard, deficiencies of this nature are reported in unrestricted net assets. If future investment returns do not alleviate the deficiency, BRHC may be required to contribute additional amounts to the fund. At December 31, 2011, there were no deficiencies.

Permanently restricted net assets at December 31, 2011 and 2010 are as follows:

	2011	2010
Cancer Center / Community Outreach	$ 605,262	$ 605,262
Nursing Scholarships	109,172	109,172
Medical Education Scholarships	160,000	160,000
	$ 874,434	$ 874,434

Temporarily restricted endowment net assets related to the permanently restricted endowments are available for the following purposes at December 31, 2011 and 2010:

	2011	2010
Cancer Center / Community Outreach	$ (33,031)	$ 21,251
Nursing Scholarships	81,870	86,681
Medical Education Scholarships	29,528	28,998
	$ 78,367	$ 136,930

The following table summarizes endowment fund activity, including contributions, income earned and appropriations for the years ended December 31, 2011 and 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment Net Assets, December 31, 2009	$ -	$ 127,182	$ 874,434
Contributions (Distributions)	-	(9,178)	-
Investment Income	-	5,317	-
Unrealized Gains	-	13,609	-
Endowment Net Assets, December 31, 2010	-	136,930	874,434
Contributions (Distributions)		(21,581)	
Investment Income	-	32,553	-
Unrealized Losses	-	(69,535)	-
Endowment Net Assets, December 31, 2011	$ -	$ 78,367	$ 874,434

NOTE 14 FUNCTIONAL EXPENSES

BRHC primarily provides general health care services to residents within its geographic area. Expenses related to providing these services for the years ended December 31, 2011 and 2010 are as follows.

	2011	2010
Health Care Services	$ 150,888,526	$ 132,119,201
General and Administrative	75,153,152	79,178,981
	$ 226,041,678	$ 211,298,182

NOTE 15 SELF-INSURANCE BENEFITS

BRHC is self-insured for employee medical benefits The plan covers all full-time employees and any part-time employees who work at least 24 hours each week beginning on the first day of the month on or following their 30th day of employment The plan also covers employees who retired with at least 30 years of service until the retiree reaches the age of 65. After the retiree reaches age 65, the plan pays premiums for a Medicare supplement. BRHC contributes approximately 90% of the benefits for full-time and retired employees and half of the cost of the benefits for qualified part-time employees BRHC also withholds from employees any additional amounts for elected covered dependents. As claims are processed by the plan's administrator, the administrator invoices BRHC for claims to be paid.

BRHC has specific stop-loss coverage of $250,000 per covered employee/dependent BRHC's liability consisted of approximately $1,430,000 and $1,180,000 in estimated claims incurred but not reported as of December 31, 2011 and 2010, respectively. This liability is reflected within other accrued expenses in the accompanying balance sheets BRHC's expense relating to the plan for the years ended December 31, 2011 and 2010 was approximately $8,554,000 and $4,900,000, respectively

NOTE 16 COMMITMENTS AND CONTINGENCIES

Professional Liability

BRHC is subject to legal proceedings and claims which arise in the course of providing health care services. BRHC currently maintains malpractice insurance coverage on a claims-made basis for claims made during the term of the policy. In management's opinion, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for asserted and unasserted claims not covered by the policy and any other uninsured liability. Additionally, BRHC carries excess coverage through an umbrella policy.

NOTE 16 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Legal Environment

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Contractual Commitments

BRHC has entered into contracts for various construction projects for which remaining commitments totaled approximately $1,995,000 at December 31, 2011 and are expected to be funded with BRHC's operating cash flows or board-designated assets limited as to use.

SUPPLEMENTARY CONSOLIDATING INFORMATION

BLUE RIDGE HEALTHCARE
CONSOLIDATING BALANCE SHEETS
YEAR ENDED DECEMBER 31, 2011

	Blue Ridge HealthCare System, Inc	Grace Hospital, Inc and Subsidiaries	Valdese General Hospital, Inc and Subsidiary	Blue Ridge Medical Group, Inc	Eliminations	**Subtotal**	Blue Ridge Foundation, Inc	Eliminations	**Consolidated Totals**
ASSETS									
CURRENT ASSETS									
Cash and Cash Equivalents	$ (1,189,189)	$ 2,318,677	$ 1,831,459	$ 682,479	$ -	**$ 3,643,426**	$ 296,424	$ -	**$ 3,939,850**
Patient Accounts Receivable, Net	-	16,164 522	11,643,852	4,648,260	-	**32,456,634**	-	-	**32,456,634**
Other Accounts Receivable	92,882,605	6,909,037	3,524,985	(13,581,163)	(86,367,085)	**3,368,379**	170,846	(158,174)	**3,381,051**
Inventories	-	1,545,544	1,186,352	5,697	-	**2,737,593**	-	-	**2,737,593**
Prepaid Expenses and Other	19 468	868,898	11,686	134,845	-	**1,034,897**	-	-	**1,034,897**
Funds Held by Trustee for Debt Service	3,832,790	-	-	-	-	**3,832,790**	-	-	**3,832,790**
Due from (to) Under Integration Agreement, Net	244,891	(2,430 936)	(7 531 867)	9,717,912	-	**-**	-	-	**-**
Total Current Assets	95,790,565	25,375,742	10,666,467	1,608,030	(86,367,085)	**47,073,719**	467,270	(158,174)	**47,382,815**
ASSETS LIMITED AS TO USE									
Restricted by Donor	-	-	-	-	-	**-**	2,043,966	-	**2,043,966**
Statutory Operating Reserve	-	3,765,216	-	-	-	**3,765,216**	-	-	**3,765,216**
Board-Designated for Community Benefit	-	3,906,225	-	-	-	**3,906,225**	-	-	**3,906,225**
Board-Designated as Funded Depreciation	-	67,349,084	17,231,878	-	-	**84,580,962**	-	-	**84,580,962**
Board-Designated for Scholarships	-	129,354	-	-	-	**129,354**	-	-	**129,354**
Total Assets Limited as to Use	-	75,149,879	17,231,878	-	-	**92,381,757**	2,043,966	-	**94,425,723**
MARKETABLE SECURITIES	-	15,049,892	-	-	-	**15,049,892**	-	-	**15,049,892**
PROPERTY AND EQUIPMENT, NET	-	91,605,682	47,455,988	6,310,507	-	**145,372,177**	-	-	**145,372,177**
OTHER ASSETS, NET	1,601,391	5,372,520	16,003	-	-	**6,989,914**	-	-	**6,989,914**
Total Assets	$ 97,391,956	$ 212,553,715	$ 75,370,336	$ 7,918,537	$ (86,367,085)	**$ 306,867,459**	$ 2,511,236	$ (158,174)	**$ 309,220,521**
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES									
Accounts Payable	$ 7,166,847	$ 2,747,636	$ 1,662,813	$ 1,953,407	$ -	**$ 13,530,703**	$ 438,926	$ (438,925)	**$ 13,530,704**
Accrued Expenses and Other Liabilities	2,121,544	6,227,369	3,919,746	1,545,729	-	**13,814,388**	292,732	280,751	**14,387,871**
Refundable Entrance Fees	-	49,633	-	-	-	**49,633**	-	-	**49,633**
Estimated Third-Party Reserves	-	3,339,614	3,071,910	-	-	**6,411,524**	-	-	**6,411,524**
Line of Credit	3,578,000	-	-	-	-	**3,578,000**	-	-	**3,578,000**
Current Portion of Long-Term Debt	1 915 000	248,377	-	-	-	**2,163,377**	-	-	**2,163,377**
Total Current Liabilities	14,781,391	12,612,629	8,654,469	3,499,136	-	**39,547,625**	731,658	(158,174)	**40,121,109**
LONG-TERM DEBT, NET	83,007,697	56,054,616	30,802,823	-	(86,367,085)	**83,498,051**	-	-	**83,498,051**
REFUNDABLE ENTRANCE FEES, NET	-	2,786,417	-	-	-	**2,786,417**	-	-	**2,786,417**
DEFERRED REVENUE FROM ENTRANCE FEES, NET	-	8,728,362	-	-	-	**8,728,362**	-	-	**8,728,362**
Total Liabilities	97,789,088	80,182,024	39,457,292	3,499,136	(86,367,085)	**134,560,455**	731,658	(158,174)	**135,133,939**
NET ASSETS									
Unrestricted	(397,132)	132,295,782	35,913,044	4,419,401	-	**172,231,095**	250,148	-	**172,481,243**
Temporarily Restricted	-	75,909	-	-	-	**75,909**	654,996	-	**730,905**
Permanently Restricted	-	-	-	-	-	**-**	874 434	-	**874,434**
Total Net Assets	(397,132)	132,371 691	35,913,044	4,419,401	-	**172,307,004**	1,779,578	-	**174,086,582**
Total Liabilities and Net Assets	$ 97,391,956	$ 212,553,715	$ 75,370,336	$ 7,918,537	$ (86,367,085)	**$ 306,867,459**	$ 2,511,236	$ (158,174)	**$ 309,220,521**

BLUE RIDGE HEALTHCARE
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2011

	Blue Ridge HealthCare System, Inc	Grace Hospital, Inc and Subsidiaries	Valdese General Hospital, Inc and Subsidiary	Blue Ridge Medical Group, Inc	Eliminations	**Subtotal**	Blue Ridge Foundation, Inc	Eliminations	**Consolidated Totals**
REVENUES									
Net Patient Service Revenue	$ -	$ 113,982,468	$ 78,804,309	$ 24,284,115	$ -	**$ 217,070,892**	$ -	$ (47,475)	**$ 217,023,417**
Other Revenue	-	8,723,656	326,571	204,979	-	**9,255,206**	1,618,160	(664,774)	**10,208,592**
Inter-Facility Revenue	6,933,066	9,182,777	2,656,269	5,547,033	(24,319,145)	**-**	-	-	**-**
Integration Agreement Adjustment, Operating, Net	244,892	(684,624)	(5,334,440)	5,774,172	-	**-**	-	-	**-**
Total Revenues	7,177,958	131,204,277	76,452,709	35,810,299	(24,319,145)	**226,326,098**	1,618,160	(712,249)	**227,232,009**
EXPENSES									
Employee Compensation	-	57,853,672	26,073,374	19,482,460	-	**103,409,506**	388,622	(81,271)	**103,716,857**
Medical and General Supplies	-	12,935,668	12,914,039	1,730,874	-	**27,580,581**	60,476	-	**27,641,057**
Purchased Services	-	11,050,799	5,387,959	989,887	-	**17,428,645**	2,472	-	**17,431,117**
Professional Fees	3,287,886	7,955,870	3,790,881	2,773,675	-	**17,808,312**	41,446	-	**17,849,758**
Provision for Uncollectible Accounts	-	18,152,554	9,536,782	1,496,023	-	**29,185,359**	(360)	-	**29,184,999**
Depreciation and Amortization	105,280	8,752,048	4,947,632	995,932	-	**14,800,892**	-	-	**14,800,892**
Interest	3,813,772	7,509	(8,526)	101	-	**3,812,856**	-	-	**3,812,856**
Inter-Facility Expense	-	5,586,705	11,041,310	7,691,130	(24,319,145)	**-**	-	-	**-**
Other Expenses	(28,980)	7,758,836	2,142,617	1,646,148	-	**11,518,621**	909,547	(824,026)	**11,604,142**
Total Expenses	7,177,958	130,053,661	75,826,068	36,806,230	(24,319,145)	**225,544,772**	1,402,203	(905,297)	**226,041,678**
OPERATING INCOME (LOSS)	-	1,150,616	626,641	(995,931)	-	**781,326**	215,957	193,048	**1,190,331**
OTHER INCOME (LOSS)									
Investment Income, Net	-	5,843,222	1,370,148	-	-	**7,213,370**	666	-	**7,214,036**
Other, Net	-	793,905	(380,964)	3,209	-	**416,150**	-	(193,048)	**223,102**
Integration Agreement Adjustment, Capital, Net	-	(1,746,313)	(2,197,427)	3,943,740	-	**-**	-	-	**-**
Total Other Income (Loss), Net	-	4,890,814	(1,208,243)	3,946,949	-	**7,629,520**	666	(193,048)	**7,437,138**
EXCESS OF REVENUES OVER (UNDER) EXPENSES	-	6,041,430	(581,602)	2,951,018	-	**8,410,846**	216,623	-	**8,627,469**
CHANGE IN NET UNREALIZED LOSSES ON INVESTMENTS	-	(5,639,648)	(1,426,253)	-	-	**(7,065,901)**	-	-	**(7,065,901)**
CHANGE IN FAIR VALUE OF DERIVIATIVE FINANCIAL INSTRUMENT	70,181	-	-	-	-	**70,181**	-	-	**70,181**
OTHER CONTRIBUTIONS	-	-	(577,172)	-	-	**(577,172)**	-	-	**(577,172)**
CHANGE IN UNRESTRICTED NET ASSETS	$ 70,181	$ 401,782	$ (2,585,027)	$ 2,951,018	$ -	**$ 837,954**	$ 216,623	$ -	**$ 1,054,577**

BLUE RIDGE HEALTHCARE
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

	Blue Ridge HealthCare System, Inc	Grace Hospital, Inc and Subsidiaries	Valdese General Hospital, Inc and Subsidiary	Blue Ridge Medical Group, Inc	Eliminations	**Subtotal**	Blue Ridge Foundation, Inc	Eliminations	**Consolidated Totals**
CASH FLOWS FROM OPERATING ACTIVITIES									
Change in Net Assets	$ 70,181	$ 402,332	$ (2,585,027)	$ 2,951,018	$ -	**$ 838,504**	$ (442,446)	$ -	**$ 396,058**
Adjustments to Reconcile Change in Net Assets to									
to Net Cash Provided by (Used in) Operating Activities									
Amortization of Deferred Revenue from Entrance Fees	-	(1,791,378)	-	-	-	**(1,791,378)**	-	-	**(1,791,378)**
Non-Cash Gain on Rental Contract Conversion	-	(10,977)	-	-	-	**(10,977)**	-	-	**(10,977)**
Provision for Uncollectible Accounts	-	18,152,554	9,536,782	1,496,023	-	**29,185,359**	(360)	-	**29,184,999**
Depreciation and Amortization	105,280	8,752,048	4,947,632	995,932	-	**14,800,892**	-	-	**14,800,892**
Change in Net Unrealized Gains on Investments	-	5,639,648	1,426,253	-	-	**7,065,901**	75,214	-	**7,141,115**
Other Contributions	-	-	577,172	-	-	**577,172**	-	-	**577,172**
Change in Operating Assets and Liabilities									
Patient and Other Accounts Receivable, Net	(5,902,176)	(8,258,852)	(15,935,671)	2,192,700	(1,927,639)	**(29,831,638)**	(124,686)	-	**(29,956,324)**
Inventories	-	184,318	(61,798)	-	-	**122,520**	-	-	**122,520**
Prepaid Expenses and Other	(8,388)	(376,659)	37,053	(71,940)	-	**(419,934)**	-	-	**(419,934)**
Due from (to) Under Integration Agreement, Net	(45,705)	(3,290,594)	6,897,704	(3,561,405)	-	**-**	-	-	**-**
Accounts Payable	2,288,626	(868,546)	19,271	1,518,954	-	**2,958,305**	231,729	-	**3,190,034**
Accrued Expenses and Other Liabilities	783,592	859,625	943,893	127,956	-	**2,715,066**	292,732	-	**3,007,798**
Estimated Third-Party Reserves	-	(17,346)	272,994	-	-	**255,648**	-	-	**255,648**
Other Assets and Liabilities	(2,500)	(3,593,973)	374,547	-	-	**(3,221,926)**	-	-	**(3,221,926)**
Net Cash Provided by (Used In) Operating Activities	(2,711,090)	15,782,200	6,450,805	5,649,238	(1,927,639)	**23,243,514**	32,183	-	**23,275,697**
CASH FLOWS FROM INVESTING ACTIVITIES									
Purchases of Marketable Securities	-	(4,335,154)	(5,044,259)	-	-	**(9,379,413)**	-	-	**(9,379,413)**
Proceeds from Sales and Maturities of Marketable Securities	-	4,483,767	3,674,600	-	-	**8,158,367**	-	-	**8,158,367**
Purchases of Assets Whose Use is Limited	-	(14,672,757)	-	-	-	**(14,672,757)**	-	-	**(14,672,757)**
Proceeds from Sales and Maturities of Assets Whose Use is Limited	261,133	8,304,939	-	-	-	**8,566,072**	23,518	-	**8,589,590**
Purchases of Property and Equipment, Net	-	(3,687,081)	(2,105,697)	(5,346,677)	-	**(11,139,455)**	-	-	**(11,139,455)**
Net Cash Provided by (Used in) Investing Activities	261,133	(9,906,286)	(3,475,356)	(5,346,677)	-	**(18,467,186)**	23,518	-	**(18,443,668)**
CASH FLOWS FROM FINANCING ACTIVITIES									
Other Contributions	-	-	(577,172)	-	-	**(577,172)**	-	-	**(577,172)**
Refunds of Entrance Fees	-	(96,667)	-	-	-	**(96,667)**	-	-	**(96,667)**
Proceeds from Entrance Fees	-	1,207,390	-	-	-	**1,207,390**	-	-	**1,207,390**
Change in Due to/from Affiliates for Non-Operating Activities	(74,730)	(5,663,571)	(815,525)	-	1,927,639	**(4,626,187)**	-	-	**(4,626,187)**
Draws from Line of Credit	3,578,000	-	-	-	-	**3,578,000**	-	-	**3,578,000**
Repayments of Long-Term Debt	(2,445,000)	-	(115,822)	(942)	-	**(2,561,764)**	-	-	**(2,561,764)**
Net Cash Provided by (Used in) Financing Activities	1,058,270	(4,552,848)	(1,508,519)	(942)	1,927,639	**(3,076,400)**	-	-	**(3,076,400)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,391,687)	1,323,066	1,466,930	301,619	-	**1,699,928**	55,701	-	**1,755,629**
Cash and Cash Equivalents - Beginning of Year	202,498	995,611	364,529	380,860	-	**1,943,498**	240,723	-	**2,184,221**
CASH AND CASH EQUIVALENTS - END OF YEAR	$ (1,189,189)	$ 2,318,677	$ 1,831,459	$ 682,479	$ -	**$ 3,643,426**	$ 296,424	$ -	**$ 3,939,850**

GRACE HOSPITAL, INCORPORATED AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2011

	Grace LifeCare	Grace Nursing Center	Subtotal	Grace Hospital	Eliminations	Consolidated Totals
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	$ 172,026	$ 40,952	**$ 212,978**	$ 2,105,699	$ -	**$ 2,318,677**
Patient Accounts Receivable, Net	71,287	776,470	**847,757**	15,316,765	-	**16,164,522**
Other Accounts Receivable	(951,723)	837,263	**(114,460)**	12,798,631	(5,775,134)	**6,909,037**
Inventories	19,924	10,797	**30,721**	1,514,823	-	**1,545,544**
Prepaid Expenses and Other	25,689	25,674	**51,363**	817,535	-	**868,898**
Due from (to) Under Integration Agreement, Net	(117,369)	(71,205)	**(188,574)**	(2,242,362)	-	**(2,430,936)**
Total Current Assets	(780,166)	1,619,951	**839,785**	30,311,091	(5,775,134)	**25,375,742**
ASSETS LIMITED AS TO USE						
Statutory Operating Reserve	3,765,216	-	**3,765,216**	-	-	**3,765,216**
Board-Designated for Community Benefit	-	-	**-**	3,906,225	-	**3,906,225**
Board-Designated as Funded Depreciation	-	-	**-**	67,349,084	-	**67,349,084**
Board-Designated for Scholarships	-	-	**-**	129,354	-	**129,354**
Total Assets Limited as to Use	3,765,216	-	**3,765,216**	71,384,663	-	**75,149,879**
MARKETABLE SECURITIES	252,553	-	**252,553**	14,797,339	-	**15,049,892**
PROPERTY AND EQUIPMENT, NET	15,273,721	1,491,155	**16,764,876**	74,840,806	-	**91,605,682**
OTHER ASSETS, NET	1,055,696	16,130	**1,071,826**	4,825,694	(525,000)	**5,372,520**
Total Assets	$ 19,567,020	$ 3,127,236	**$ 22,694,256**	$ 196,159,593	$ (6,300,134)	**$ 212,553,715**
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts Payable	$ 69,698	$ 179,107	**$ 248,805**	$ 2,498,831	$ -	**$ 2,747,636**
Accrued Expenses and Other Liabilities	549,309	388,827	**938,136**	5,289,233	-	**6,227,369**
Refundable Entrance Fees	49,633	-	**49,633**	-	-	**49,633**
Estimated Third-Party Reserves	-	119,999	**119,999**	3,219,615	-	**3,339,614**
Current Portion of Long-Term Debt	389,518	-	**389,518**	248,377	(389,518)	**248,377**
Total Current Liabilities	1,058,158	687,933	**1,746,091**	11,256,056	(389,518)	**12,612,629**
LONG-TERM DEBT, NET	5,385,616	-	**5,385,616**	56,054,616	(5,385,616)	**56,054,616**
REFUNDABLE ENTRANCE FEES, NET	2,786,417	-	**2,786,417**	-	-	**2,786,417**
DEFERRED REVENUE FROM ENTRANCE FEES, NET	8,728,362	-	**8,728,362**	-	-	**8,728,362**
Total Liabilities	17,958,553	687,933	**18,646,486**	67,310,672	(5,775,134)	**80,182,024**
NET ASSETS						
Unrestricted	1,570,224	2,433,771	**4,003,995**	128,816,787	(525,000)	**132,295,782**
Temporarily Restricted	38,243	5,532	**43,775**	32,134	-	**75,909**
Total Net Assets	1,608,467	2,439,303	**4,047,770**	128,848,921	(525,000)	**132,371,691**
Total Liabilities and Net Assets	$ 19,567,020	$ 3,127,236	**$ 22,694,256**	$ 196,159,593	$ (6,300,134)	**$ 212,553,715**

GRACE HOSPITAL, INCORPORATED AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2011

	Grace LifeCare	Grace Nursing Center	Subtotal	Grace Hospital	Eliminations	Consolidated Totals
REVENUES						
Net Patient Service Revenue	$ 2,450,351	$ 8,158,650	**$ 10,609,001**	$ 103,373,467	$ -	**$ 113,982,468**
Other Revenue	5,564,679	15,188	**5,579,867**	3,143,789	-	**8,723,656**
Inter-Facility Revenue	23,842	454	**24,296**	10,151,225	(992,744)	**9,182,777**
Integration Agreement Adjustment, Operating, Net	(52,463)	(31,640)	**(84,103)**	(600,521)	-	**(684,624)**
Total Revenues	7,986,409	8,142,652	**16,129,061**	116,067,960	(992,744)	**131,204,277**
EXPENSES						
Employee Compensation	4,121,433	5,692,572	**9,814,005**	48,039,667	-	**57,853,672**
Medical and General Supplies	724,356	601,265	**1,325,621**	11,610,047	-	**12,935,668**
Purchased Services	631,717	229,867	**861,584**	10,189,215	-	**11,050,799**
Professional Fees	114,003	48,638	**162,641**	7,793,229	-	**7,955,870**
Provision for Uncollectible Accounts	-	96,499	**96,499**	18,056,055	-	**18,152,554**
Depreciation and Amortization	749,466	135,691	**885,157**	7,866,891	-	**8,752,048**
Interest	-	-	**-**	7,509	-	**7,509**
Inter-Facility Expense	752,045	719,847	**1,471,892**	5,107,557	(992,744)	**5,586,705**
Other Expenses	657,272	315,324	**972,596**	6,786,240	-	**7,758,836**
Total Expenses	7,750,292	7,839,703	**15,589,995**	115,456,410	(992,744)	**130,053,661**
OPERATING INCOME	236,117	302,949	**539,066**	611,550	-	**1,150,616**
OTHER INCOME (LOSS)						
Investment Income, Net	66,166	229	**66,395**	5,776,827	-	**5,843,222**
Other, Net	8,134	(151)	**7,983**	785,922	-	**793,905**
Integration Agreement Adjustment, Capital, Net	(64,906)	(39,565)	**(104,471)**	(1,641,842)	-	**(1,746,313)**
Total Other Income (Loss), Net	9,394	(39,487)	**(30,093)**	4,920,907	-	**4,890,814**
EXCESS OF REVENUES OVER EXPENSES	245,511	263,462	**508,973**	5,532,457	-	**6,041,430**
CHANGE IN NET UNREALIZED LOSSES ON INVESTMENTS	(34,294)	-	**(34,294)**	(5,605,354)	-	**(5,639,648)**
CHANGE IN UNRESTRICTED NET ASSETS	$ 211,217	$ 263,462	**$ 474,679**	$ (72,897)	$ -	**$ 401,782**

GRACE HOSPITAL, INCORPORATED AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

	Grace LifeCare	Grace Nursing Center	**Subtotal**	Grace Hospital	Eliminations	**Consolidated Totals**
CASH FLOWS FROM OPERATING ACTIVITIES						
Change in Net Assets	$ 209,733	$ 263,698	**$ 473,431**	$ (71,099)	$ -	**$ 402,332**
Adjustments to Reconcile Change in Net Assets to						
to Net Cash Provided by (Used in) Operating Activities						
Amortization of Deferred Revenue from Entrance Fees	(1,791,378)	-	**(1,791,378)**	-	-	**(1,791,378)**
Non-Cash Gain on Rental Contract Conversion	(10,977)	-	**(10,977)**	-	-	**(10,977)**
Provision for Uncollectible Accounts	-	96,499	**96,499**	18,056,055	-	**18,152,554**
Depreciation and Amortization	749,466	135,691	**885,157**	7,866,891	-	**8,752,048**
Change in Net Unrealized Gains on Investments	34,294	-	**34,294**	5,605,354	-	**5,639,648**
Change in Operating Assets and Liabilities						
Patient and Other Accounts Receivable, Net	820,899	(171,347)	**649,552**	(10,686,719)	1,778,315	**(8,258,852)**
Inventories	(3,255)	882	**(2,373)**	186,691	-	**184,318**
Prepaid Expenses and Other	6,783	(1,784)	**4,999**	(381,658)	-	**(376,659)**
Due from (to) Under Integration Agreement, Net	(223,783)	(332,740)	**(556,523)**	(2,734,071)	-	**(3,290,594)**
Accounts Payable	(36,735)	15,472	**(21,263)**	(847,283)	-	**(868,546)**
Accrued Expenses and Other Liabilities	64,943	57,295	**122,238**	737,387	-	**859,625**
Estimated Third-Party Reserves	-	-	**-**	(17,346)	-	**(17,346)**
Other Assets and Liabilities	2,436	150	**2,586**	(3,596,559)	-	**(3,593,973)**
Net Cash Provided by (Used In) Operating Activities	(177,574)	63,816	**(113,758)**	14,117,643	1,778,315	**15,782,200**
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of Marketable Securities	-	-	**-**	(4,335,154)	-	**(4,335,154)**
Proceeds from Sales and Maturities of Marketable Securities	-	-	**-**	4,483,767	-	**4,483,767**
Purchase of Assets Whose Use is Limited	-	-	**-**	(14,672,757)	-	**(14,672,757)**
Proceeds from Sales and Maturities of Assets Whose Use is Limited	933,797	-	**933,797**	7,371,142	-	**8,304,939**
Purchases of Property and Equipment, Net	(209,376)	(128,490)	**(337,866)**	(3,349,215)	-	**(3,687,081)**
Net Cash Provided by (Used in) Investing Activities	724,421	(128,490)	**595,931**	(10,502,217)	-	**(9,906,286)**
CASH FLOWS FROM FINANCING ACTIVITIES						
Refunds of Entrance Fees	(96,667)	-	**(96,667)**	-	-	**(96,667)**
Proceeds from Entrance Fees	1,207,390	-	**1,207,390**	-	-	**1,207,390**
Change in Due to/from Affiliates for Non-Operating Activities	(1,778,315)	-	**(1,778,315)**	(2,106,941)	(1,778,315)	**(5,663,571)**
Net Cash Used in Financing Activities	(667,592)	-	**(667,592)**	(2,106,941)	(1,778,315)	**(4,552,848)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(120,745)	(64,674)	**(185,419)**	1,508,485	-	**1,323,066**
Cash and Cash Equivalents - Beginning of Year	292,771	105,626	**398,397**	597,214	-	**995,611**
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 172,026	$ 40,952	**$ 212,978**	$ 2,105,699	$ -	**$ 2,318,677**

VALDESE GENERAL HOSPITAL, INCORPORATED AND SUBSIDIARY
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2011

	Valdese General Hospital	Valdese Nursing Home	Subtotal	Eliminations	Consolidated Totals
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	$ 1,741,675	$ 89,784	**$ 1,831,459**	$ -	**$ 1,831,459**
Patient Accounts Receivable, Net	10,766,284	877,568	**11,643,852**	-	**11,643,852**
Other Accounts Receivable	6,099,385	(2,574,400)	**3,524,985**	-	**3,524,985**
Inventories	1,165,873	20,479	**1,186,352**	-	**1,186,352**
Prepaid Expenses and Other	(946)	12,632	**11,686**	-	**11,686**
Due from (to) Under Integration Agreement, Net	(7,091,628)	(440,239)	**(7,531,867)**	-	**(7,531,867)**
Total Current Assets	12,680,643	(2,014,176)	**10,666,467**	-	**10,666,467**
ASSETS LIMITED AS TO USE					
Board-Designated as Funded Depreciation	17,231,878	-	**17,231,878**	-	**17,231,878**
Total Assets Limited as to Use	17,231,878	-	**17,231,878**	-	**17,231,878**
PROPERTY AND EQUIPMENT, NET	45,574,004	1,881,984	**47,455,988**	-	**47,455,988**
OTHER ASSETS, NET	396,001	16,003	**412,004**	(396,001)	**16,003**
Total Assets	$ 75,882,526	$ (116,189)	**$ 75,766,337**	$ (396,001)	**$ 75,370,336**
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts Payable	$ 1,489,595	$ 173,218	**$ 1,662,813**	$ -	**$ 1,662,813**
Accrued Expenses and Other Liabilities	3,522,256	397,490	**3,919,746**	-	**3,919,746**
Estimated Third-Party Reserves	2,914,857	157,053	**3,071,910**	-	**3,071,910**
Current Portion of Long-Term Debt	-	-	**-**	-	**-**
Total Current Liabilities	7,926,708	727,761	**8,654,469**	-	**8,654,469**
LONG-TERM DEBT, NET	30,802,823	-	**30,802,823**	-	**30,802,823**
Total Liabilities	38,729,531	727,761	**39,457,292**	-	**39,457,292**
NET ASSETS					
Unrestricted	37,152,995	(843,950)	**36,309,045**	(396,001)	**35,913,044**
Total Net Assets	37,152,995	(843,950)	**36,309,045**	(396,001)	**35,913,044**
Total Liabilities and Net Assets	$ 75,882,526	$ (116,189)	**$ 75,766,337**	$ (396,001)	**$ 75,370,336**

VALDESE GENERAL HOSPITAL, INCORPORATED AND SUBSIDIARY
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2011

	Valdese General Hospital	Valdese Nursing Home	Subtotal	Eliminations	Consolidated Totals
REVENUES					
Net Patient Service Revenue	$ 70,967,697	$ 7,836,612	**$ 78,804,309**	$ -	**$ 78,804,309**
Other Revenue	316,557	10,014	**326,571**	-	**326,571**
Inter-Facility Revenue	3,032,293	631	**3,032,924**	(376,655)	**2,656,269**
Integration Agreement Adjustment, Operating, Net	(5,057,476)	(276,964)	**(5,334,440)**	-	**(5,334,440)**
Total Revenues	69,259,071	7,570,293	**76,829,364**	(376,655)	**76,452,709**
EXPENSES					
Employee Compensation	21,737,686	4,335,688	**26,073,374**	-	**26,073,374**
Medical and General Supplies	12,472,288	441,751	**12,914,039**	-	**12,914,039**
Purchased Services	4,179,123	1,208,836	**5,387,959**	-	**5,387,959**
Professional Fees	3,737,316	53,565	**3,790,881**	-	**3,790,881**
Provision for Uncollectible Accounts	9,327,636	209,146	**9,536,782**	-	**9,536,782**
Depreciation and Amortization	4,821,037	126,595	**4,947,632**	-	**4,947,632**
Interest	(8,526)	-	**(8,526)**	-	**(8,526)**
Inter-Facility Expense	10,613,809	804,156	**11,417,965**	(376,655)	**11,041,310**
Other Expenses	1,914,882	227,735	**2,142,617**	-	**2,142,617**
Total Expenses	68,795,251	7,407,472	**76,202,723**	(376,655)	**75,826,068**
OPERATING INCOME	463,820	162,821	**626,641**	-	**626,641**
OTHER INCOME (LOSS)					
Investment Income, Net	1,370,064	84	**1,370,148**	-	**1,370,148**
Other, Net	(380,964)	-	**(380,964)**	-	**(380,964)**
Integration Agreement Adjustment, Capital, Net	(2,034,152)	(163,275)	**(2,197,427)**	-	**(2,197,427)**
Total Other Loss, Net	(1,045,052)	(163,191)	**(1,208,243)**	-	**(1,208,243)**
EXCESS OF REVENUES UNDER EXPENSES	(581,232)	(370)	**(581,602)**	-	**(581,602)**
CHANGE IN NET UNREALIZED LOSSES ON INVESTMENTS	(1,426,253)	-	**(1,426,253)**	-	**(1,426,253)**
OTHER CONTRIBUTIONS	(564,251)	(12,921)	**(577,172)**	-	**(577,172)**
CHANGE IN UNRESTRICTED NET ASSETS	$ (2,571,736)	$ (13,291)	**$ (2,585,027)**	$ -	**$ (2,585,027)**

VALDESE GENERAL HOSPITAL, INCORPORATED AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

	Valdese General Hospital	Valdese Nursing Center	**Consolidated Totals**
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in Net Assets	$ (2,571,736)	$ (13,291)	**$ (2,585,027)**
Adjustments to Reconcile Change in Net Assets			
to Net Cash Provided by Operating Activities			
Provision for Uncollectible Accounts	9,327,636	209,146	**9,536,782**
Depreciation and Amortization	4,821,037	126,595	**4,947,632**
Change in Net Unrealized Gains on Investments	1,426,253	-	**1,426,253**
Other Contributions	564,251	12,921	**577,172**
Change in Operating Assets and Liabilities			
Patient and Other Accounts Receivable, Net	(15,268,750)	(666,921)	**(15,935,671)**
Inventories	(62,157)	359	**(61,798)**
Prepaid Expenses and Other	39,522	(2,469)	**37,053**
Due from (to) Under Integration Agreement, Net	6,427,264	470,440	**6,897,704**
Accounts Payable	(2,219)	21,490	**19,271**
Accrued Expenses and Other Liabilities	897,870	46,023	**943,893**
Estimated Third-Party Reserves	272,994	-	**272,994**
Other Assets and Liabilities	373,210	1,337	**374,547**
Net Cash Provided by Operating Activities	6,245,175	205,630	**6,450,805**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Marketable Securities	(5,044,259)	-	**(5,044,259)**
Proceeds from Sales and Maturities of Marketable Securities	3,674,600	-	**3,674,600**
Purchases of Property and Equipment, Net	(1,946,935)	(158,762)	**(2,105,697)**
Net Cash Used in Investing Activities	(3,316,594)	(158,762)	**(3,475,356)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Other Contributions	(564,251)	(12,921)	**(577,172)**
Change in Due to/from Affiliates for Non-Operating Activities	(815,525)	-	**(815,525)**
Repayments of Long-Term Debt	(115,822)	-	**(115,822)**
Net Cash Used in Financing Activities	(1,495,598)	(12,921)	**(1,508,519)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,432,983	33,947	**1,466,930**
Cash and Cash Equivalents - Beginning of Year	308,692	55,837	**364,529**
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,741,675	$ 89,784	**$ 1,831,459**