



See a Social Security Number? Say Something!
Report Privacy Problems to <https://public.resource.org/privacy>
Or call the IRS Identity Theft Hotline at 1-800-908-4490



Part III

Statement of Program Service Accomplishments

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

☐

☒

1

Briefly describe the organization's mission

To improve the health of those we serve in a spirit of love and compassion

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 \$ 272,578,791 including grants of \$ 266,859) (Revenue \$ 309,911,950)

ST CHARLES MEDICAL CENTER - BEND (SCMC-B) SCMC-B PROVIDED SERVICES FOR 14,711 INPATIENTS, 1,663 BIRTHS, 14,891 SURGICAL CASES, 36,239 EMERGENCY ROOM VISITS, AND 120,336 OTHER OUTPATIENT VISITS IN 2011 AS ONE OF THE PACIFIC NORTHWEST'S LEADING REGIONAL HEALTH CARE FACILITIES, ST CHARLES BEND PROVIDES SERVICES TYPICALLY FOUND IN MARKETS MANY TIMES ITS SIZE FOR OVER 90 YEARS, ST CHARLES BEND HAS TAKEN RESPONSIBILITY FOR THE HEALTH AND WELL-BEING OF GENERATIONS OF OREGONIANS, DEVELOPING INTO A LEVEL II REGIONAL TRAUMA CENTER WITH SPECIALIZED PARTNERSHIPS IN HEART, CANCER, ORTHOPEDICS AND NEUROSURGERY

4b

(Code) (Expenses \$ 44,448,931 including grants of \$ 2,403) (Revenue \$ 58,242,226)

ST CHARLES MEDICAL CENTER - REDMOND (SCMC-R) SCMC-R PROVIDED SERVICES FOR 2,256 INPATIENTS, 327 BIRTHS, 3,269 SURGICAL CASES, 17,972 EMERGENCY ROOM VISITS, AND 42,621 OTHER OUTPATIENT VISITS IN 2011 AT ST CHARLES REDMOND, THE PATIENT EXPERIENCE REMAINS AT THE CENTER OF ALL WE DO AND EACH PATIENT IS EMPOWERED TO PLAY AN ACTIVE ROLE IN HIS OR HER OWN CARE AND HEALING SURGERIES ARE PERFORMED IN FOUR OF OREGON'S NEWEST AND MOST ADVANCED SURGICAL SUITES PATIENTS AND THEIR FAMILIES ENJOY THE COMF

4c

(Code) (Expenses \$ 38,359,352 including grants of \$) (Revenue \$ 46,045,505)

ST CHARLES MEDICAL GROUP (SCMG) SCMG IS A GROUP OF MEDICAL CLINICS OWNED AND OPERATED BY ST CHARLES HEALTH SYSTEM THESE CLINICS ARE LOCATED THROUGHOUT THE REGION AND PROVIDE OUTPATIENT SERVICES SUCH AS ANTICOAGULATION, CANCER CARE, OB/GYN, PULMONARY CARE, SLEEP DISORDER RESOURCES, AND PRIMARY CARE SCMG PROVIDED 55,030 VISITS IN BEND CLINICS,56,487 VISITS IN REDMOND CLINICS, 1,161 VISITS IN SISTERS CLINICS AND 21,567 VISITS IN PRINEVILLE CLINICS IN 2011 SCMG ALSO OPERATES AN IMMEDIATE CARE C

(Code) (Expenses \$ 43,448,816 including grants of \$ 1,288) (Revenue \$ 69,452,250)

Pioneer Memorial Hospital, Air Link, Home Health & Hospice, Sage View mental health, Sleep Lab, Psychiatric Emergency, Sage View mental health, Sleep Lab, Psychiatric Emergency,

4d

Other program services (Describe in Schedule O)









(Expenses \$ 43,448,816 including grants of \$ 1,288) (Revenue \$ 69,452,250)

4e

Total program service expenses \$ 398,835,890

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 	Yes	
2	Is the organization required to complete Schedule B, Schedule of Contributors (see instructions)? 	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		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		No
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		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		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		No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III		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		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 	Yes	
11	If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable		
a	Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI. 	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.		No
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VIII.		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.		No
e	Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X. 	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. 	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		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 	Yes	
13	Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E		No
14a	Did the organization maintain an office, employees, or agents outside of the United States?		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		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		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		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		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		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		No
20a	Did the organization operate one or more hospitals? If "Yes," complete Schedule H 	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	Yes	

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i>	21	Yes	
22	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i>	22		No
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i>	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer questions 24b-24d and complete Schedule K. If "No," go to line 25</i>	24a	Yes	
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b		No
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c		No
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d		No
25a	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? <i>If "Yes," complete Schedule L, Part I</i>	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i>	25b		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i>	26	Yes	
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If "Yes," complete Schedule L, Part III</i>	27		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28a	Yes	
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28b		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or owner? <i>If "Yes," complete Schedule L, Part IV</i>	28c	Yes	
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i>	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i>	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i>	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i>	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i>	33	Yes	
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i>	34	Yes	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	35a	Yes	
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)? <i>If "Yes," complete Schedule R, Part V, line 2</i>	35b	Yes	
36	Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i>	36		
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i>	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? 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 <input type="checkbox"/>		
		YesNo
1a	Enter the number reported in Box 3 of Form 1096 Enter -0- if not applicable	1a581
b	Enter the number of Forms W-2G included in line 1a Enter -0- if not applicable	1b0
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	2a3,325
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)	2bYes
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3aYes
b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O	3bYes
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)?	4aNo
b	If "Yes," enter the name of the foreign country <input type="text"/> 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? . . .	5aNo
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5bNo
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?	6aNo
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?	7aNo
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?	7cNo
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?	7eNo
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? . . .	7fNo
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?	14aNo
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O . . .	14b

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

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

Section C. Disclosure

Form **990** (2011)

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) TAYLOR TODD Chairman	10 00	X		X				0	0	0
(2) SAYEG THOMAS Vice Chairman	10 00	X		X				9,000	0	0
(3) WOODARD-KOZIMOR CAROL Director	5 00	X						14,455	0	0
(4) SCHUETTE DAN Director	5 00	X						15,000	0	0
(5) DEMPSEY DENNIS Director	5 00	X						0	0	0
(6) HOGGARD-GREEN JILL Director	5 00	X						0	0	0
(7) DOWNER DOUG Director	5 00	X						9,400	0	0
(8) HAKALA ROBERT MD Director	5 00	X						9,000	0	0
(9) COOK JOSH MD Director	5 00	X						18,288	0	0
(10) BUEHLER KNUTE MD Director	5 00	X						14,727	0	0
(11) MILLER LAURI Director	5 00	X						19,227	0	0
(12) GOULD ROBERT Director	5 00	X						0	0	0
(13) HAASE MEGAN Director	5 00	X						0	0	0
(14) DIEGEL JAMES A President/CEO	50 00	X		X				1,043,543	0	127,058
(15) SHEPARD KAREN M Sr VP Finance/CFO	50			X				415,563		68,621
(16) BRYANT RON Corporate Secretary	50			X						
(17) BOILEAU MICHEL MD EVP/CCO	50				X			298,071		44,796

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) HENRY JAMES CEO SCMC-Bend	50				X			504,061		67,933
(19) WINNENBERG WILLIAM CIO	50				X			348,473		62,528
(20) SCHUELER KIRK Executive VP/Chief Admin Officer	50				X			255,496		50,380
(21) VITCOVICH KATHERINE Sr VP Human Resources	50				X			329,802		66,240
(22) MARTIN RICHARD VP Service Lines	50				X			371,833		53,829
(23) STEINKE PAMELA VP Quality/Chief Nursing Exec	50				X			372,268		57,845
(24) VARGA PATRICK CEO SCMC-R	50				X			186,038		20,313
(25) GOMES BOB CEO SCMC-R & PMH	50				X			257,466		57,503
1b Sub-Total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)								8,572,074		904,581

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▶276

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

Section B. Independent Contractors

1

Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization 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
CASCADE MEDICAL IMAGING 1460 NE MEDICAL CENTER DR BEND, OR 97701	Rent and MRI Services	14,088,801
SOUTH SOUND INPATIENT PHYSICIANS 2500 NE NEFF BEND, OR 97701	Medical Services	2,275,662
PATHOLOGY ASSOCIATES MEDICAL LABORATORIE 110 WEST CLIFF AVENUE SPOKANE, WA 99204	Medical Services	1,621,188
CENTRAL OREGON RADIATION ONCOLOGY 2500 NE NEFF RD BEND, OR 97701	Physician Fees	1,817,707
CENTRAL OREGON MRI PO BOX 6059 BEND, OR 97708	MRI services	3,253,906
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 ▶85	

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	1,052,385			
	e	Government grants (contributions)	1e	282,493			
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	103,985			
	g	Noncash contributions included in lines 1a-1f \$ _____					
	h	Total. Add lines 1a-1f		1,438,863			
Program Service Revenue	2a	SCMC Bend	Business Code 622110	309,911,950			
	b	SCMC Redmond	622110	58,242,226			
	c	St Charles Medical Group	621110	46,045,505			
	d	Air Link	621910	19,325,512			
	e	Pioneer Memorial Hospital	622110	22,332,583			
	f	All other program service revenue		27,794,155			
	g	Total. Add lines 2a-2f		483,651,931			
	Other Revenue	3	Investment income (including dividends, interest and other similar amounts)		5,503,716		
4		Income from investment of tax-exempt bond proceeds . .		334,762			334,762
5		Royalties					
6a		Gross rents	(i) Real 122,387	(ii) Personal			
b		Less rental expenses	3,385				
c		Rental income or (loss)	119,002				
d		Net rental income or (loss)		119,002	119,002		
7a		Gross amount from sales of assets other than inventory	(i) Securities 32,514,184	(ii) Other 133,638			
b		Less cost or other basis and sales expenses	27,053,654	107,504			
c		Gain or (loss)	5,460,530	26,134			
d		Net gain or (loss)		5,486,664			5,486,664
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	2,483,032			
b		Less cost of goods sold	b	798,233			
c		Net income or (loss) from sales of inventory . .		1,684,799	1,684,799		
Miscellaneous Revenue		Business Code					
11a	Healthcare JV Income (Loss)	900099	20,591,875	20,591,875			
b	Mgmt & Other Svcs	541611	1,659,767	547,308	1,112,459		
c	Reimbursed Salaries	900099	3,096,022	3,096,022			
d	All other revenue		480,147	480,076		71	
e	Total. Add lines 11a-11d		25,827,811				
12	Total revenue. See Instructions		524,047,548	510,171,013	1,112,459	11,325,213	

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	270,550	270,550		
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	4,440,576	0	4,440,576	0
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	312,551	0	312,551	0
7	Other salaries and wages	185,465,921	154,127,813	31,026,523	311,585
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	6,545,912	5,464,472	1,070,614	10,826
9	Other employee benefits	37,835,208	30,227,738	7,536,560	70,910
10	Payroll taxes	14,180,181	11,572,368	2,582,592	25,221
11	Fees for services (non-employees)				
a	Management				
b	Legal	553,421	6,141	547,280	0
c	Accounting	298,548	0	298,548	0
d	Lobbying				
e	Professional fundraising See Part IV, line 17				
f	Investment management fees	102,122	0	102,122	0
g	Other	51,517,740	38,904,102	12,613,316	322
12	Advertising and promotion	1,647,191	292,578	1,352,667	1,946
13	Office expenses	60,144,312	54,036,712	6,094,080	13,520
14	Information technology	7,344,820	995,288	6,335,388	14,144
15	Royalties				
16	Occupancy	4,971,090	2,069,599	2,841,225	60,266
17	Travel	753,826	518,047	232,145	3,634
18	Payments of travel or entertainment expenses for any federal, state, or local public officials				
19	Conferences, conventions, and meetings	1,023,855	594,737	428,277	841
20	Interest	12,850,126	0	12,850,126	0
21	Payments to affiliates	801,909	152,481	648,588	840
22	Depreciation, depletion, and amortization	31,886,517	29,226,886	2,659,631	0
23	Insurance	3,237,975	2,514,006	723,969	0
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 Expense	26,522,319	26,442,895	79,424	0
b	Provider Tax	11,921,788	0	11,921,788	0
c	Medical Supplies	41,448,132	41,419,477	28,655	0
d					
e					
f	All other expenses				
25	Total functional expenses. Add lines 1 through 24f	506,076,590	398,835,890	106,726,645	514,055
26	Joint costs. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X

Balance Sheet

					(A)		(B)
					Beginning of year		End of year
Assets	1	Cash—non-interest-bearing			19,822,497	1	15,875,657
	2	Savings and temporary cash investments			4,758,357	2	4,610,804
	3	Pledges and grants receivable, net				3	
	4	Accounts receivable, net			72,100,637	4	79,729,146
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L			298,787	5	110,555
	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				7	527,100
	8	Inventories for sale or use			5,106,768	8	9,365,196
	9	Prepaid expenses and deferred charges			4,880,446	9	6,558,755
	10a	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D	10a	459,016,775			
	b	Less: accumulated depreciation	10b	235,959,881	238,475,301	10c	223,056,894
	11	Investments—publicly traded securities			171,323,519	11	182,948,685
	12	Investments—other securities. See Part IV, line 11			22,148,805	12	21,561,720
	13	Investments—program-related. See Part IV, line 11			4,828,960	13	5,961,777
	14	Intangible assets			5,169,841	14	5,146,091
	15	Other assets. See Part IV, line 11				15	
	16	Total assets. Add lines 1 through 15 (must equal line 34)			548,913,918	16	555,452,380
Liabilities	17	Accounts payable and accrued expenses			42,592,455	17	46,375,198
	18	Grants payable				18	
	19	Deferred revenue			987,327	19	1,108,036
	20	Tax-exempt bond liabilities			162,177,079	20	159,908,129
	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			26,635,278	23	20,126,839
	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			7,211,441	25	9,844,182
	26	Total liabilities. Add lines 17 through 25			239,603,580	26	237,362,384
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.						
	27	Unrestricted net assets			309,310,338	27	318,089,996
	28	Temporarily restricted net assets				28	
	29	Permanently restricted net assets				29	
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.						
	30	Capital stock or trust principal, or current funds				30	
	31	Paid-in or capital surplus, or land, building or equipment fund				31	
	32	Retained earnings, endowment, accumulated income, or other funds				32	
	33	Total net assets or fund balances			309,310,338	33	318,089,996
	34	Total liabilities and net assets/fund balances			548,913,918	34	555,452,380

Part XI Reconciliation of Net Assets

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

1	Total revenue (must equal Part VIII, column (A), line 12)	1	524,047,548
2	Total expenses (must equal Part IX, column (A), line 25)	2	506,076,590
3	Revenue less expenses Subtract line 2 from line 1	3	17,970,958
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	309,310,338
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-9,191,300
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	318,089,996

Part XII Financial Statements and Reporting

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

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

SCHEDULE A
(Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

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

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

OMB No 1545-0047

2011

Open to Public
Inspection

Name of the organization ST CHARLES HEALTH SYSTEM INC	Employer identification number 93-0602940
--	--

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 Se**section 509(a)(4).**

11

☐

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

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Other

e

☐

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

f

☐

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

g

☐

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

(i)

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

(ii)

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

(iii)

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

h

☐

Provide the following information about the supported organization(s)

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

(i) 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?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U S ?		(vii) Amount of support?
			Yes	No	Yes	No	Yes	No	
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	0 %
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 IIIPart 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)						0

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	0 %
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	0 %
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

SCHEDULE D
(Form 990)

Supplemental Financial Statements

OMB No 1545-0047

2011

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

▶ 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.

Name of the organization
ST CHARLES HEALTH SYSTEM INC

Employer identification number
93-0602940

Part I

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

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

Part II

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

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

☐ Preservation of land for public use (e g , recreation or pleasure) ☐ Preservation of an historically importantly land area
☐ Protection of natural habitat ☐ Preservation of a certified historic structure
☐ Preservation of open space

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

	Held at the End of the Year
a	Total number of conservation easements
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06

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

4 Number of states where property subject to conservation easement is located ▶ _____

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

☐ Yes ☐ No

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

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

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

☐ Yes ☐ No

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

Part III

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

1a If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

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

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

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

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

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

b Assets included in Form 990, Part X ▶ \$ _____

Part III

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

3

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

a

☐ Public exhibition

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other

4

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

5

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

☐ Yes

☐ No

Part IV

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

1a

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

☐ Yes

☐ No

b

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

	Amount
1c	
1d	
1e	
1f	

2a

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

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV

Part V

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

	(a)Current Year	(b)Prior Year	(c)Two Years Back	(d)Three Years Back	(e)Four Years Back
1a	Beginning of year balance	3,134,189	2,769,989	1,164,120	
b	Contributions	91,464	1,574,539		
c	Investment earnings or losses	-49,509	307,398	113,584	
d	Grants or scholarships	19,250	21,613	82,254	
e	Other expenditures for facilities and programs	59,790			
f	Administrative expenses	15,472	13,049		
g	End of year balance	2,990,168	3,134,189	2,769,989	

2

Provide the estimated percentage of the year end balance held as

a

Board designated or quasi-endowment ▶

b

Permanent endowment ▶ 100 000 %

c

Term endowment ▶

3a

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

(i) unrelated organizations

(ii) related organizations

b

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

	Yes	No
3a(i)	Yes	
3a(ii)	Yes	
3b	Yes	

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	4,731,212		4,731,212
b	Buildings	207,897,058	69,469,784	138,427,274
c	Leasehold improvements	942,222	441,095	501,127
d	Equipment	228,616,128	159,762,256	68,853,872
e	Other	16,830,155	6,286,746	10,543,409
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) ▶				223,056,894

Part XIReconciliation of Change in Net Assets from Form 990 to Financial Statements			
1	Total revenue (Form 990, Part VIII, column (A), line 12)	1	
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	
3	Excess or (deficit) for the year Subtract line 2 from line 1	3	
4	Net unrealized gains (losses) on investments	4	
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV)	8	
9	Total adjustments (net) Add lines 4 - 8	9	
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10	

Part XIIReconciliation of Revenue per Audited Financial Statements With Revenue per Return			
1	Total revenue, gains, and other support per audited financial statements	1	
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
a	Net unrealized gains on investments	2a	
b	Donated services and use of facilities	2b	
c	Recoveries of prior year grants	2c	
d	Other (Describe in Part XIV)	2d	
e	Add lines 2a through 2d	2e	
3	Subtract line 2e from line 1	3	
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	
c	Add lines 4a and 4b	4c	
5	Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12)	5	

Part XIIIReconciliation of Expenses per Audited Financial Statements With Expenses per Return			
1	Total expenses and losses per audited financial statements	1	
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	
e	Add lines 2a through 2d	2e	
3	Subtract line 2e from line 1	3	
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	
c	Add lines 4a and 4b	4c	
5	Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18)	5	

Part XIVSupplemental 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
Pt V Line 4		ENDOWMENT FUNDS ARE REPORTED IN THIS SECTION BECAUSE THEY ARE HELD BY ST CHARLES FOUNDATION, INC , A RELATED ENTITY OF SCHS. PERMANENTLY RESTRICTED ENDOWMENT FUNDS ARE PRIMARILY TO BE USED FOR CONTINUING EDUCATION SCHOLARSHIPS FOR CAREGIVERS AND THE PROFESSIONAL MEDICAL COMMUNITY, SUPPORT OF SCHS' COMMUNITY BENEFIT PROGRAMS, AND IN THE AREA OF GREATEST NEED. THE FLOYD DEMENT HOSPITAL TRUST FUND TESTAMENTARY TRUST IS ADMINISTERED BY THE UNION BANK OF CALIFORNIA UNDER A TRUST AGREEMENT WHICH PROV
Pt V Line 4		to the Foundation for charity care to be provided to SCMC-Bend
Pt X		THE AUDITED FINANCIAL STATEMENTS CONTAIN THE FOLLOWING FOOTNOTE: THE CORPORATION HAS RECEIVED A DETERMINATION LETTER FROM THE INTERNAL REVENUE SERVICE STATING THAT IT IS EXEMPT FROM FEDERAL INCOME TAX UNDER SECTION 501 (C)(3) OF THE INTERNAL REVENUE CODE EXCEPT FOR TAX ON UNRELATED BUSINESS INCOME. IT IS MANAGEMENT'S BELIEF THAT NONE OF ITS ACTIVITIES HAVE PRODUCED MATERIAL UNRELATED BUSINESS INCOME, AND THAT SCHS HAS OPERATED IN A MANNER THAT QUALIFIES IT FOR TAX-EXEMPT STATUS. ACCOUNTING PRINCI
Pt V Line 1g		THE TOTALS IN COLUMNS (A) AND (B) DO NOT MATCH THE TOTALS ON PART X LINE 29. THE AMOUNTS REPORTED IN SCHEDULE D PART V ARE ASSETS HELD BY A RELATED ORGANIZATION, ST CHARLES FOUNDATION (SCF). THE ENDOWMENT FUNDS ARE REPORTED ON ST CHARLES FOUNDATION INC 'S 990 ON PART X. THEY ARE NOT INCLUDED IN PART X OF THIS 990 BECAUSE, ALTHOUGH THE FOUNDATION IS A SEPARATE LEGAL ENTITY, IT IS INCLUDED IN THE CONSOLIDATED STATEMENTS OF SCHS BASED ON THE FACT THAT THE CORPORATION IS THE SOLE MEMBER OF THE FOU

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
ST CHARLES HEALTH SYSTEM INC

Employer identification number
93-0602940

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 <div><input checked="" type="checkbox"/> Applied uniformly to all hospitals <input type="checkbox"/> Generally tailored to individual hospitals</div> <div><input type="checkbox"/> Applied uniformly to most hospitals</div>			
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 <i>free</i> care? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care <div><input checked="" type="checkbox"/> 100%<input type="checkbox"/> 150%<input type="checkbox"/> 200%<input type="checkbox"/> Other _____%</div> b Did the organization use FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care <div><input type="checkbox"/> 200%<input type="checkbox"/> 250%<input checked="" type="checkbox"/> 300%<input type="checkbox"/> 350%<input type="checkbox"/> 400%<input type="checkbox"/> Other _____%</div> 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"?	3a	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		No
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 eligible for free or discounted care?	5c		No
6a	Did the organization prepare a community benefit report during 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)		12,848	26,400,462		26,400,462	5 510 %
b Medicaid (from Worksheet 3, column a)		55,005	88,187,418	47,928,003	40,259,415	8 400 %
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d Total Charity Care and Means-Tested Government Programs		67,853	114,587,880	47,928,003	66,659,877	13 910 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)		13,108	727,078	400	726,678	0 150 %
f Health professions education (from Worksheet 5)			963,127	281,236	681,891	0 140 %
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)			1,713,022		1,713,022	0 360 %
j Total Other Benefits		13,108	3,403,227	281,636	3,121,591	0 650 %
k Total. Add lines 7d and 7j		80,961	117,991,107	48,209,639	69,781,468	14 560 %

Part IICommunity 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
1Physical improvements and housing			6,670		6,670	0 %
2Economic development			3,150		3,150	0 %
3Community support						
4Environmental improvements						
5Leadership development and training for community members						
6Coalition building						
7Community health improvement advocacy			16,106		16,106	0 %
8Workforce development			58,606		58,606	0 010 %
9Other						
10Total			84,532		84,532	0 010 %

Part IIIBad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

		Yes	No
1Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No. 15?	1	Yes	
2Enter the amount of the organization's bad debt expense	2	13,022,459	
3Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy	3		
4Provide 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

5Enter total revenue received from Medicare (including DSH and IME)	5	104,796,598	
6Enter Medicare allowable costs of care relating to payments on line 5	6	134,553,125	
7Subtract line 6 from line 5. This is the surplus or (shortfall)	7	-29,756,527	
8Describe 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: <input type="checkbox"/> Cost accounting system <input checked="" type="checkbox"/> Cost to charge ratio <input type="checkbox"/> Other			

Section C. Collection Practices

9aDid the organization have a written debt collection policy during the tax year?	9a	Yes	
bIf "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 IVManagement 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 CASCADE MEDICAL IMAGING LLC	Diagnostic Imaging	70 000 %		30 000 %
2 CENTRAL OREGON MAGNETIC RESONANCE IMAGING	Magnetic Resonance Imaging	33 000 %		67 000 %
3 HEART CENTER OF THE CASCADES LLC	Owns & manages a medical building	50 000 %		50 000 %
4 CASCADE SURGICENTER LLC	Outpatient surgery	50 000 %	2 175 %	50 000 %
5 INSTITUTE OF THE CASCADES LLC	Administration & Marketing	50 000 %		50 000 %
6 CASCADE MEDICAL BUILDINGS LLC	Owns & manages a medical building	50 000 %	3 450 %	50 000 %
7 CASCADE PROPERTY HOLDINGS LLC	Owns bare land for investment	50 000 %	2 705 %	50 000 %
8 SEE PART VI				
9				
10				
11				
12				
13				

Section A. Hospital Facilities

How many hospital facilities did the organization operate during the tax year? 3

Name and address

Schedule H (Form 990) 2011

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)

ST CHARLES MEDICAL CENTER BEND

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 If "Yes," indicate what the Needs Assessment describes (check all that apply) a <input type="checkbox"/> A definition of the community served by the hospital facility b <input type="checkbox"/> Demographics of the community c <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community d <input type="checkbox"/> How data was obtained e <input type="checkbox"/> The health needs of the community f <input type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups g <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet those needs h <input type="checkbox"/> The process for consulting with persons representing the community's interests i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs j <input type="checkbox"/> Other (describe in Part VI)	1	
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? If "Yes," indicate how the Needs Assessment was made widely available (check all that apply) a <input type="checkbox"/> Hospital facility's website b <input type="checkbox"/> Available upon request from the hospital facility c <input type="checkbox"/> Other (describe in Part VI)	5	
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply) a <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community b <input type="checkbox"/> Execution of the implementation strategy c <input type="checkbox"/> Development of a community-wide community benefit plan for the facility d <input type="checkbox"/> Participation in community-wide community benefit plan e <input type="checkbox"/> Inclusion of a community benefit section in operational plans f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA g <input type="checkbox"/> Prioritization of health needs in the community h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community i <input type="checkbox"/> 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? If "Yes," indicate the FPG family income limit for eligibility for free care <u>100</u> % If "No," explain in Part VI the criteria the hospital facility used	9	Yes

Part V

Facility Information (continued)

		Yes	No	
10	Used FPG to determine eligibility for providing discounted care? If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>300</u> % If "No," explain in Part VI the criteria the hospital facility used	10	Yes	
11	Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply) a <input checked="" type="checkbox"/> Income level b <input checked="" type="checkbox"/> Asset level c <input checked="" type="checkbox"/> Medical indigency d <input type="checkbox"/> Insurance status e <input type="checkbox"/> Uninsured discount f <input type="checkbox"/> Medicaid/Medicare g <input type="checkbox"/> State regulation h <input type="checkbox"/> Other (describe in Part VI)	11	Yes	
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? If "Yes," indicate how the hospital facility publicized the policy (check all that apply) a <input checked="" type="checkbox"/> The policy was posted at all times on the hospital facility's web site b <input checked="" type="checkbox"/> The policy was attached to all billing invoices c <input checked="" type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms d <input checked="" type="checkbox"/> The policy was posted in the hospital facility's admissions offices e <input checked="" type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility f <input checked="" type="checkbox"/> The policy was available upon request g <input type="checkbox"/> Other (describe in Part VI)	13	Yes	

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 <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments or arrests e <input checked="" type="checkbox"/> 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? If "Yes," check all actions in which the hospital facility or a third party engaged a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments e <input type="checkbox"/> Other similar actions (describe in Part VI)	16		No
17	Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply) a <input type="checkbox"/> Notified patients of the financial assistance policy upon admission b <input type="checkbox"/> Notified patients of the financial assistance policy prior to discharge c <input type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills d <input type="checkbox"/> Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy e <input checked="" type="checkbox"/> 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? If "No," indicate why	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility's policy was not in writing		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> 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	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
b	<input type="checkbox"/> 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	<input type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
d	<input type="checkbox"/> 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? If "Yes," explain in Part VI		No
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? If "Yes," explain in Part VI		No

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)

ST CHARLES MEDICAL CENTER REDMOND

Name of Hospital Facility:

Line Number of Hospital Facility (from Schedule H, Part V, Section A):2

	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 If "Yes," indicate what the Needs Assessment describes (check all that apply) a <input type="checkbox"/> A definition of the community served by the hospital facility b <input type="checkbox"/> Demographics of the community c <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community d <input type="checkbox"/> How data was obtained e <input type="checkbox"/> The health needs of the community f <input type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups g <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet those needs h <input type="checkbox"/> The process for consulting with persons representing the community's interests i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs j <input type="checkbox"/> Other (describe in Part VI)	1	
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? If "Yes," indicate how the Needs Assessment was made widely available (check all that apply) a <input type="checkbox"/> Hospital facility's website b <input type="checkbox"/> Available upon request from the hospital facility c <input type="checkbox"/> Other (describe in Part VI)	5	
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply) a <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community b <input type="checkbox"/> Execution of the implementation strategy c <input type="checkbox"/> Development of a community-wide community benefit plan for the facility d <input type="checkbox"/> Participation in community-wide community benefit plan e <input type="checkbox"/> Inclusion of a community benefit section in operational plans f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA g <input type="checkbox"/> Prioritization of health needs in the community h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community i <input type="checkbox"/> 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? If "Yes," indicate the FPG family income limit for eligibility for free care <u>100</u> % If "No," explain in Part VI the criteria the hospital facility used	9	Yes

Part V

Facility Information (continued)

		Yes	No	
10	Used FPG to determine eligibility for providing discounted care? If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>300</u> % If "No," explain in Part VI the criteria the hospital facility used	10	Yes	
11	Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply) a <input checked="" type="checkbox"/> Income level b <input checked="" type="checkbox"/> Asset level c <input checked="" type="checkbox"/> Medical indigency d <input type="checkbox"/> Insurance status e <input type="checkbox"/> Uninsured discount f <input type="checkbox"/> Medicaid/Medicare g <input type="checkbox"/> State regulation h <input type="checkbox"/> Other (describe in Part VI)	11	Yes	
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? If "Yes," indicate how the hospital facility publicized the policy (check all that apply) a <input checked="" type="checkbox"/> The policy was posted at all times on the hospital facility's web site b <input checked="" type="checkbox"/> The policy was attached to all billing invoices c <input checked="" type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms d <input checked="" type="checkbox"/> The policy was posted in the hospital facility's admissions offices e <input checked="" type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility f <input checked="" type="checkbox"/> The policy was available upon request g <input type="checkbox"/> Other (describe in Part VI)	13	Yes	

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 <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments or arrests e <input checked="" type="checkbox"/> 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? If "Yes," check all actions in which the hospital facility or a third party engaged a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments e <input type="checkbox"/> Other similar actions (describe in Part VI)	16		No
17	Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply) a <input type="checkbox"/> Notified patients of the financial assistance policy upon admission b <input type="checkbox"/> Notified patients of the financial assistance policy prior to discharge c <input type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills d <input type="checkbox"/> Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy e <input checked="" type="checkbox"/> 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? If "No," indicate why	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility's policy was not in writing		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> 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	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
b	<input type="checkbox"/> 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	<input type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
d	<input type="checkbox"/> 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? If "Yes," explain in Part VI		No
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? If "Yes," explain in Part VI		No

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)

PIONEER MEMORIAL HOSPITAL

Name of Hospital Facility:

Line Number of Hospital Facility (from Schedule H, Part V, Section A):3

	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 If "Yes," indicate what the Needs Assessment describes (check all that apply) a <input type="checkbox"/> A definition of the community served by the hospital facility b <input type="checkbox"/> Demographics of the community c <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community d <input type="checkbox"/> How data was obtained e <input type="checkbox"/> The health needs of the community f <input type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups g <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet those needs h <input type="checkbox"/> The process for consulting with persons representing the community's interests i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs j <input type="checkbox"/> Other (describe in Part VI)	1	
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? If "Yes," indicate how the Needs Assessment was made widely available (check all that apply) a <input type="checkbox"/> Hospital facility's website b <input type="checkbox"/> Available upon request from the hospital facility c <input type="checkbox"/> Other (describe in Part VI)	5	
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply) a <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community b <input type="checkbox"/> Execution of the implementation strategy c <input type="checkbox"/> Development of a community-wide community benefit plan for the facility d <input type="checkbox"/> Participation in community-wide community benefit plan e <input type="checkbox"/> Inclusion of a community benefit section in operational plans f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA g <input type="checkbox"/> Prioritization of health needs in the community h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community i <input type="checkbox"/> 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? If "Yes," indicate the FPG family income limit for eligibility for free care 100% If "No," explain in Part VI the criteria the hospital facility used	9	Yes

Part V

Facility Information (continued)

		Yes	No	
10	Used FPG to determine eligibility for providing discounted care? If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>300</u> % If "No," explain in Part VI the criteria the hospital facility used	10	Yes	
11	Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply) a <input checked="" type="checkbox"/> Income level b <input checked="" type="checkbox"/> Asset level c <input checked="" type="checkbox"/> Medical indigency d <input type="checkbox"/> Insurance status e <input type="checkbox"/> Uninsured discount f <input type="checkbox"/> Medicaid/Medicare g <input type="checkbox"/> State regulation h <input type="checkbox"/> Other (describe in Part VI)	11	Yes	
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? If "Yes," indicate how the hospital facility publicized the policy (check all that apply) a <input checked="" type="checkbox"/> The policy was posted at all times on the hospital facility's web site b <input checked="" type="checkbox"/> The policy was attached to all billing invoices c <input checked="" type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms d <input checked="" type="checkbox"/> The policy was posted in the hospital facility's admissions offices e <input checked="" type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility f <input checked="" type="checkbox"/> The policy was available upon request g <input type="checkbox"/> Other (describe in Part VI)	13	Yes	

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 <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments or arrests e <input checked="" type="checkbox"/> 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? If "Yes," check all actions in which the hospital facility or a third party engaged a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments e <input type="checkbox"/> Other similar actions (describe in Part VI)	16		No
17	Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply) a <input type="checkbox"/> Notified patients of the financial assistance policy upon admission b <input type="checkbox"/> Notified patients of the financial assistance policy prior to discharge c <input type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills d <input type="checkbox"/> Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy e <input checked="" type="checkbox"/> 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? If "No," indicate why	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility's policy was not in writing		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> 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	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
b	<input type="checkbox"/> 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	<input type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
d	<input type="checkbox"/> 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? If "Yes," explain in Part VI		No
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? If "Yes," explain in Part VI		No

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? 23

Name and address	Type of Facility (Describe)
1 See Additional Data Table	
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
Pt I Line 7		The costing methodology used was derived from SCHS's cost accounting

Identifier	ReturnReference	Explanation
Pt I Line 7		system, which addresses all hospital-based patient segments Non-

Identifier	ReturnReference	Explanation
Pt I Line 7		hospital based segments include Home Health, inpatient psychiatric

Identifier	ReturnReference	Explanation
Pt I Line 7		services, physician clinics, and rehab A cost-to-charge ratio from the cost

Identifier	ReturnReference	Explanation
Pt I Line 7		accounting system was used to calculate the cost of Financial Assistance in

Identifier	ReturnReference	Explanation
Pt I Line 7		line 7a Numbers reported in column (b) in lines 7a and 7b refer to the number

Identifier	ReturnReference	Explanation
Pt I Line 7		of patient encounters

Identifier	ReturnReference	Explanation
Pt I Line 7 col (f)		The total expense from Form 990 Part IX Line 25 Column (A) was

Identifier	ReturnReference	Explanation
Pt I Line 7 col (f)		\$ 506,079,974 The Bad Debt Expense included in this amount was

Identifier	ReturnReference	Explanation
Pt I Line 7 col (f)		\$26,522,319 The remaining total expense of \$479,557,655

Identifier	ReturnReference	Explanation
Pt I Line 7 col (f)		was used for the purposes of calculating Line 7 Column (f)

Identifier	ReturnReference	Explanation
Pt II		SCHS participates in educational development to promote continued

Identifier	ReturnReference	Explanation
Pt II		availability of medical professionals in its community, which is essential

Identifier	ReturnReference	Explanation
Pt II		to its ability to provide advanced medical care in the future SCHS also

Identifier	ReturnReference	Explanation
Pt II		partners with community health improvement organizations, which work to

Identifier	ReturnReference	Explanation
Pt II		Identify and provide resources for areas of highest need in its communities

Identifier	ReturnReference	Explanation
Pt III Line 4		The costing methodology used for determining amounts reported in

Identifier	ReturnReference	Explanation
Pt III Line 4		lines 2 and 3 was derived from SCHS's cost accounting system

Identifier	ReturnReference	Explanation
Pt III Line 4		Discounts and payments are posted to patient accounts before

Identifier	ReturnReference	Explanation
Pt III Line 4		accounts are written off to bad debt, and only the net receivable

Identifier	ReturnReference	Explanation
Pt III Line 4		that is deemed uncollectable is included in the calculation for lines 2 and 3

Identifier	ReturnReference	Explanation
Pt III Line 4		Text of financial statement footnote

Identifier	ReturnReference	Explanation
Pt III Line 4		Patient Accounts Receivable, Allowance for Doubtful Accounts, and Other

Identifier	ReturnReference	Explanation
Pt III Line 4		Receivables The collection of receivables from third-party payors

Identifier	ReturnReference	Explanation
Pt III Line 4		and patients is SCHS's primary source of cash and is critical to its

Identifier	ReturnReference	Explanation
Pt III Line 4		operating performance When SCHS provides care to patients, it does not

Identifier	ReturnReference	Explanation
Pt III Line 4		require collateral, however, it maintains an estimated allowance for

Identifier	ReturnReference	Explanation
Pt III Line 4		doubtful accounts Additionally, SCHS adjusts accounts receivable

Identifier	ReturnReference	Explanation
Pt III Line 4		balances to estimated collectible balances based on the terms of contracts in

Identifier	ReturnReference	Explanation
Pt III Line 4		place with third-party payors The primary collection risks relate

Identifier	ReturnReference	Explanation
Pt III Line 4		to uninsured patient accounts and patient accounts for which the primary

Identifier	ReturnReference	Explanation
Pt III Line 4		insurance payor has paid, but patient responsibility amounts (generally

Identifier	ReturnReference	Explanation
Pt III Line 4		deductibles and co-payments) remain outstanding The allowance for

Identifier	ReturnReference	Explanation
Pt III Line 4		doubtful accounts is estimated based primarily upon SCHS's historical collection

Identifier	ReturnReference	Explanation
Pt III Line 4		experience, the age of the patient's account, management's estimate

Identifier	ReturnReference	Explanation
Pt III Line 4		of the patient's economic ability to pay, and the effectiveness of collection

Identifier	ReturnReference	Explanation
Pt III Line 4		efforts Patient accounts receivable balances are routinely reviewed

Identifier	ReturnReference	Explanation
Pt III Line 4		in conjunction with historical collection rates and other economic

Identifier	ReturnReference	Explanation
Pt III Line 4		conditions that might ultimately affect the collectibility of patient

Identifier	ReturnReference	Explanation
Pt III Line 4		accounts when considering the adequacy of the amounts recorded in the allowance

Identifier	ReturnReference	Explanation
Pt III Line 4		for doubtful accounts Actual write-offs have historically been within

Identifier	ReturnReference	Explanation
Pt III Line 4		management's expectations Significant changes in payor mix, business office

Identifier	ReturnReference	Explanation
Pt III Line 4		operations, economic conditions, or trends in federal and state governmental

Identifier	ReturnReference	Explanation
Pt III Line 4		healthcare coverage could affect SCHS's collection of patient accounts

Identifier	ReturnReference	Explanation
Pt III Line 4		receivable, cash flows, and results of operations

Identifier	ReturnReference	Explanation
Pt III Line 4		Bad debt is charged against a patient account when the patient can not cover the

Identifier	ReturnReference	Explanation
Pt III Line 4		care charged to them The cost of this shortfall is considered community benefit as

Identifier	ReturnReference	Explanation
Pt III Line 4		SCHS is the primary provider of these services in our communities and this situation

Identifier	ReturnReference	Explanation
Pt III Line 4		often occurs when no other resources or programs are available to the patient

Identifier	ReturnReference	Explanation
Pt III Line 8		Costing Methodology Medicare allowable costs were calculated using a

Identifier	ReturnReference	Explanation
Pt III Line 8		cost-to-charge ratio as determined by the Medicare Cost Reports

Identifier	ReturnReference	Explanation
Pt III Line 8		Community Benefit Caring for Medicare patients fulfills a community

Identifier	ReturnReference	Explanation
Pt III Line 8		need and relieves a government burden as these patients typically have

Identifier	ReturnReference	Explanation
Pt III Line 8		low and/or fixed incomes Medicare does not provide sufficient reimbursement

Identifier	ReturnReference	Explanation
Pt III Line 8		to cover the cost of providing care for these patients and that shortfall

Identifier	ReturnReference	Explanation
Pt III Line 8		shown on Line 7 should be counted as community benefit

Identifier	ReturnReference	Explanation
Pt III Line 9b		Collection policies are the same for all patients Patients are screened

Identifier	ReturnReference	Explanation
Pt III Line 9b		for eligibility for financial assistance before collection procedures

Identifier	ReturnReference	Explanation
Pt III Line 9b		begin If at any point in the collection process documentation is received

Identifier	ReturnReference	Explanation
Pt III Line 9b		that indicates the patient is potentially eligible for financial assistance

Identifier	ReturnReference	Explanation
Pt III Line 9b		but has not applied for it, the account is referred back for a financial assistance

Identifier	ReturnReference	Explanation
Pt III Line 9b		review

Identifier	ReturnReference	Explanation
		Pt IV - Entities listed on Part IV are owned by St Charles Health System, Inc and by other

Identifier	ReturnReference	Explanation
		Pt IV - LLCs whose members are in whole or in part comprised of physicians

Identifier	ReturnReference	Explanation
		Pt IV - SCHS is not aware of the detailed composition (% ownership or

Identifier	ReturnReference	Explanation
		Pt IV - profits) of the participating LLCs, therefore the entire percent

Identifier	ReturnReference	Explanation
		Pt IV - owned by the participating LLC owner is shown in column (e)

Identifier	ReturnReference	Explanation
		Pt IV - SCHS is aware that one director of the organization is also a

Identifier	ReturnReference	Explanation
		Pt IV - physician and is a member of the participating LLC owners for the

Identifier	ReturnReference	Explanation
		Pt IV - entities listed on Part IV lines 3, 4, 5, 6 and 7

Identifier	ReturnReference	Explanation
Pt V Sec B 15e		N/A

Identifier	ReturnReference	Explanation
Pt V Sec B 17e		N/A

Identifier	ReturnReference	Explanation
Pt V Sec B 19d		All FAP-eligible individuals are charged in accordance with St Charles

Identifier	ReturnReference	Explanation
Pt V Sec B 19d		Health System Inc 's policy guidelines

Identifier	ReturnReference	Explanation
Pt VI Line 2		SCHS gathers data from State, County, and Agency reports, rankings,

Identifier	ReturnReference	Explanation
Pt VI Line 2		and research data which are based on health outcomes such as morbidity

Identifier	ReturnReference	Explanation
Pt VI Line 2		and mortality, as well as health factors including behavioral, clinical,

Identifier	ReturnReference	Explanation
Pt VI Line 2		social, economic, and environmental factors These findings are studied

Identifier	ReturnReference	Explanation
Pt VI Line 2		and compared to SCHS's ranking and results, and are used to develop

Identifier	ReturnReference	Explanation
Pt VI Line 2		a regional needs assessment which drives the community benefit area

Identifier	ReturnReference	Explanation
Pt VI Line 2		of focus Through feedback, monitoring, and tracking, the regional needs

Identifier	ReturnReference	Explanation
Pt VI Line 2		assessment is adjusted over time to ensure its accuracy and performance

Identifier	ReturnReference	Explanation
Pt VI Line 3		The financial assistance policy is referred to in both English and Spanish

Identifier	ReturnReference	Explanation
Pt VI Line 3		in a variety of ways Communications include bilingual signage throughout

Identifier	ReturnReference	Explanation
Pt VI Line 3		the hospital, including the emergency department and outpatient registration

Identifier	ReturnReference	Explanation
Pt VI Line 3		areas, distribution of brochures describing the policy and how to apply for assistance,

Identifier	ReturnReference	Explanation
Pt VI Line 3		posting of reference to the policy and application on the website, a statement added to all

Identifier	ReturnReference	Explanation
Pt VI Line 3		publications indicating the availability of charity care,

Identifier	ReturnReference	Explanation
Pt VI Line 3		through appointments with financial counselors, and is included with each bill

Identifier	ReturnReference	Explanation
Pt VI Line 3		Interpretation services are available for patients needing information

Identifier	ReturnReference	Explanation
Pt VI Line 3		in languages other than English and Spanish

Identifier	ReturnReference	Explanation
Pt VI Line 4		SCHS is the only healthcare system in the area serving two counties and

Identifier	ReturnReference	Explanation
Pt VI Line 4		surrounding areas The service area includes small cities and surrounding

Identifier	ReturnReference	Explanation
Pt VI Line 4		suburbs, small towns and rural agricultural areas The population

Identifier	ReturnReference	Explanation
Pt VI Line 4		includes a significant number of retired citizens and a large

Identifier	ReturnReference	Explanation
Pt VI Line 4		minority population, both Hispanic and Native American

Identifier	ReturnReference	Explanation
Pt VI Line 5		A majority of SCHS's governing body is comprised of persons who reside

Identifier	ReturnReference	Explanation
Pt VI Line 5		in the organization's primary service area who are neither employees

Identifier	ReturnReference	Explanation
Pt VI Line 5		nor contractors of the organization SCHS extends medical staff

Identifier	ReturnReference	Explanation
Pt VI Line 5		privileges to all qualified physicians in the community for some or

Identifier	ReturnReference	Explanation
Pt VI Line 5		all of its departments

Identifier	ReturnReference	Explanation
Pt VI Line 6		SCHS is a 501(c)(3) corporation. Other affiliates include St Charles.

Identifier	ReturnReference	Explanation
Pt VI Line 6		Foundation, a 501(c)(3), and certain healthcare-related joint ventures

Identifier	ReturnReference	Explanation
Pt VI Line 6		In addition to community benefit activities of the hospital system,

Identifier	ReturnReference	Explanation
Pt VI Line 6		the St Charles Foundation funds community benefit and community wellness

Identifier	ReturnReference	Explanation
Pt VI Line 6		initiatives, including the operational or financial support of

Identifier	ReturnReference	Explanation
Pt VI Line 6		clinics serving an indigent population

Identifier	ReturnReference	Explanation
Pt VI Line 7		SCHS files its annual Community Benefit report with the State of Oregon

Additional Data

Software ID: 11000175
Software Version:
EIN: 93-0602940
Name: ST CHARLES HEALTH SYSTEM INC

Form 990 Schedule H, Part V Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

[illegible]

Form 990 Schedule H, Part V Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

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? <u>23</u> Name and address	Type of Facility (Describe)
CASCADE MEDICAL IMAGING 1460 NE MEDICAL CENTER DR BEND, OR 97701	Diagnostic Imaging Clinic
CASCADE MEDICAL IMAGING 1460 NE MEDICAL CENTER DR BEND, OR 97701	Diagnostic Imaging Clinic
CASCADE MEDICAL IMAGING 1460 NE MEDICAL CENTER DR BEND, OR 97701	Diagnostic Imaging Clinic

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
ST CHARLES HEALTH SYSTEM INC

Employer identification number
93-0602940

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) DESCHUTES CO HEALTH DEPARTMENT 1340 NW WALL ST BEND,OR 97701	93-6002292	Govt	25,000				Prenatal care
(2) HEALTH MATTERS OF CENTRAL OREGONPO BOX 5729 BEND,OR 97708	20-8230296	501(c)(3)	60,000				Medical Assistance
(3) KIDS CENTER1375 NW KINGSTON BEND,OR 97701	94-3169200	501(c)(3)	20,000				Child Abuse Prevention
(4) VOLUNTEERS IN MEDICINE2300 NE NEFF RD BEND,OR 97701	93-1327847	501(c)(3)	47,205	36,445	Book Value, Rate Comp	Supplies/Rent	Medical Assistance
(5) PARTNERSHIP TO END POVERTYPO BOX 147 REDMOND,OR 97756	93-1314045	501(c)(3)	10,000				Poverty Prevention
(6) BESTCARE TREATMENT SERVICESPO BOX 1710 REDMOND,OR 97756	93-1269087	501(c)(3)		72,473	FMV	Rent Reduct	Addiction Treatment
(7) UNITED WAY OF DESCHUTES COPO BOX 5969 BEND,OR 97708	93-6012576	501(c)(3)	29,696				Community Programs
(8) RONALD MCDONALD HOUSE CHARITIES OF CENTRAL OREGON1700 NE PURCELL BLVD BEND,OR 97701	93-1125838	501(c)(3)		49,983	Rate Comp	Subsidized Rent	Family Lodging
(9) WESTERN UNIVERSITY OF HEALTH SCIENCESPO BOX 5729 POMONA,CA 91766	95-3127273	501(c)(3)	60,000				Classroom & Lab Space
(10) NATURE OF WORDS PO BOX 56 BEND,OR 97709	86-1167881	501(c)(3)	12,000				Literary Arts & Humanities

2

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

9

3

Enter total number of other organizations listed in the line 1 table

1

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
Pt I Line 2		SCHS does not have strict grant criteria that requires follow-up and monitoring
Pt I Line 2		of the use of grants, assistance, or support funds that are distributed
Pt I Line 2		SCHS does not regularly make grants, but does support programs that benefit
Pt I Line 2		community health SCHS maintains relationships with the organizations it supports,
Pt I Line 2		and works with those organizations to further the health and safety of the
Pt I Line 2		communities served
Part II		The total of column (d) is less than the total cash grants on 990 Part IX, Line 1
Part II		because some line items detailed in the GL were not reported on Schedule I
Part II		because they did not meet the \$5K threshold

Software ID: 11000175
Software Version:
EIN: 93-0602940
Name: ST CHARLES HEALTH SYSTEM INC

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(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
DESCHUTES CO HEALTH DEPARTMENT1340 NW WALL ST BEND, OR 97701	93-6002292	Govt	25,000				Prenatal care
HEALTH MATTERS OF CENTRAL OREGONPO BOX 5729 BEND, OR 97708	20-8230296	501(c)(3)	60,000				Medical Assistance

Form 990,Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(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
KIDS CENTER1375 NW KINGSTON BEND,OR 97701	94-3169200	501(c)(3)	20,000				Child Abuse Prevention
VOLUNTEERS IN MEDICINE2300 NE NEFF RD BEND,OR 97701	93-1327847	501(c)(3)	47,205	36,445	Book Value, Rate Comp	Supplies/Rent	Medical Assistance

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(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
PARTNERSHIP TO END POVERTY PO BOX 147 REDMOND, OR 97756	93-1314045	501(c)(3)	10,000				Poverty Prevention
BESTCARE TREATMENT SERVICES PO BOX 1710 REDMOND, OR 97756	93-1269087	501(c)(3)		72,473	FMV	Rent Reduct	Addiction Treatment

Form 990,Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(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
UNITED WAY OF DESCHUTES COPO BOX 5969 BEND,OR 97708	93-6012576	501(c)(3)	29,696				Community Programs
RONALD MCDONALD HOUSE CHARITIES OF CENTRAL OREGON1700 NE PURCELL BLVD BEND,OR 97701	93-1125838	501(c)(3)		49,983	Rate Comp	Subsidized Rent	Family Lodging

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(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
WESTERN UNIVERSITY OF HEALTH SCIENCES PO BOX 5729 POMONA, CA 91766	95-3127273	501(c)(3)	60,000				Classroom & Lab Space
NATURE OF WORDSPO BOX 56 BEND, OR 97709	86-1167881	501(c)(3)	12,000				Literary Arts & Humanities

Schedule J
(Form 990)

Compensation Information

OMB No 1545-0047

2011

Open to Public Inspection

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

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

▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization
ST CHARLES HEALTH SYSTEM INC

Employer identification number
93-0602940

Part I

Questions Regarding Compensation

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

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.

[illegible]

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
Pt I Line 1a		Three physicians received forgiveness of a portion of debt in 2011, which was treated as grossed-up taxable earnings. Such loans are reported on Schedule L.
Pt I Line 4b		The employer contributed to a 457(f) plan for the following individuals in 2011: \$84,357 James A. Diegel; \$34,010 Karen M. Shepard; \$30,333 Michel Boileau; \$28,388 James Henry; \$28,122 William Winnenberg; \$27,502 Kirk Schueler; \$26,780 Katherine Vitcovich; \$21,726 Richard Martin; \$24,307 Pamela Steinke; \$21,040 Robert Gomes; \$20,000 Jeffrey Absalon. The contributed amounts are not vested and may never be paid to the individuals. There were distributions from the 457(f) plan to the following employees in 2011 which were included in the employees' base compensation and reported on Schedule J, Part II, Column B (iii): \$339,081 James A. Diegel; \$169,220 James Henry; \$112,180 Richard Martin; \$20,975 Pamela Steinke.
Pt I Line 7		SCHS paid incentive compensation for certain executives in 2011, based on a 2010 accrual which was calculated using several operating targets which focused on the following areas: Implement EMR in order to provide clinical data for quality improvement; Improve patient satisfaction; Improve physician satisfaction; Reduce employee turnover; Meet financial targets to ensure a sustainable Health System.

Software ID:
Software Version:
EIN: 93-0602940
Name: ST CHARLES HEALTH SYSTEM INC

Form 990, Schedule J, Part II - Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) 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 compensation				
DIEGEL JAMES A	(i) (ii)	450,202	137,223	456,118	99,057	28,000	1,170,600	75,557
SHEPARD KAREN M	(i) (ii)	319,072	62,836	33,655	48,710	19,911	484,184	
BOILEAU MICHEL MD	(i) (ii)	295,974		2,097	30,333	14,463	342,867	
HENRY JAMES	(i) (ii)	261,545	54,631	187,885	43,088	24,845	571,994	37,080
WINNENBERG WILLIAM	(i) (ii)	260,787	55,973	31,713	42,822	19,707	411,002	
SCHUELER KIRK	(i) (ii)	250,064		5,432	27,502	22,878	305,876	
VITCOVICH KATHERINE	(i) (ii)	263,624	53,025	13,153	41,480	24,760	396,042	
MARTIN RICHARD	(i) (ii)	215,328	43,030	113,475	34,303	19,525	425,661	21,093
STEINKE PAMELA	(i) (ii)	240,235	46,964	85,069	33,361	24,484	430,113	21,026
VARGA PATRICK	(i) (ii)	114,740	35,807	35,491	9,077	11,236	206,351	
GOMES BOB	(i) (ii)	210,790	41,040	5,636	33,294	24,210	314,970	
ABSALON JEFFREY MD	(i) (ii)	247,495	25,000	16,904	20,000	23,042	332,441	
BOONE ROBERT MD	(i) (ii)	594,482		128,063	14,700	20,163	757,408	
KORNFELD STEVE MD	(i) (ii)	743,831		105,184	14,700	20,194	883,909	
MARTIN WILLIAM MD	(i) (ii)	583,782		96,794	14,700	25,321	720,597	
MURPHY THOMAS MD	(i) (ii)	442,032	50	87,006	14,700	25,200	568,988	
CONRAD ARTHUR MD	(i) (ii)	655,456	25	41,708	14,700	20,115	732,004	
SMITH JOSEPH	(i) (ii)	312,551					312,551	

<div>Schedule K (Form 990)</div> <div>Department of the Treasury Internal Revenue Service</div>	<div>Supplemental Information on Tax Exempt Bonds</div> <div>▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Schedule O (Form 990). ▶ Attach to Form 990. ▶ See separate instructions.</div>										OMB No 1545-0047	
											2011	
	Name of the organization ST CHARLES HEALTH SYSTEM INC										Employer identification number 93-0602940	

Part I

Bond Issues

	(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date Issued	(e) Issue Price	(f) Description of Purpose	(g) Defeased		(h) On Behalf of Issuer		(i) Pool financing	
							Yes	No	Yes	No	Yes	No
A	HOSPITAL FACILITY AUTHORITY DESCHUTES CO OR	93-0991182	250336CV4	12-23-2008	101,284,231	See Part VI		X		X		X
B	HOSPITAL FACILITY AUTHORITY DESCHUTES CO OR	93-0991182	250336BY9	12-21-2005	51,800,000	See Part VI		X		X		X

Part II

Proceeds

		A		B		C		D	
1	Amount of bonds retired			4,275,000					
2	Amount of bonds defeased								
3	Total proceeds of issue	109,373,347		53,449,239					
4	Gross proceeds in reserve funds	10,403,437							
5	Capitalized interest from proceeds								
6	Proceeds in refunding escrow								
7	Issuance costs from proceeds	2,025,685		489,902					
8	Credit enhancement from proceeds			1,021,665					
9	Working capital expenditures from proceeds								
10	Capital expenditures from proceeds	79,314,103		51,937,672					
11	Other spent proceeds	17,630,000							
12	Other unspent proceeds								
13	Year of substantial completion	2007		2007					
		Yes	No	Yes	No	Yes	No	Yes	No
14	Were the bonds issued as part of a current refunding issue?	X			X				
15	Were the bonds issued as part of an advance refunding issue?		X		X				
16	Has the final allocation of proceeds been made?	X		X					
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X		X					

Part III

Private Business Use

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

Part III

Private Business Use (Continued)

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use?	X		X					
b	If 'Yes' to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c	Are there any research agreements that may result in private business use of bond-financed property?	X		X					
d	If 'Yes' to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?	X		X					
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government	0 500 %		3 000 %					
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government	0 %		0 %					
6	Total of lines 4 and 5	0 500 %		3 000 %					
7	Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?	X		X					

Part IV

Arbitrage

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

Part V

Procedures To Undertake Corrective Action

Check the box if the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations ☐ Yes ☒ No

Part VI

Supplemental Information

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

Identifier	Return Reference	Explanation
		The difference between Part I (e) and Part II 3 is due to interest earnings on bond proceeds
		Part I (A), Col (f) The proceeds of the Bonds were used to refund, redeem, or defease the
		Series 2005A Bonds, and to pay financing and legal expenses associated therewithin
		Part I (B), Col (f) The proceeds of the Bonds were used to finance capital additions
		and improvements to St Charles Medical Center-Bend and to St CharlesMedical Center-Redmond

Schedule L
(Form 990 or 990-EZ)

Transactions with Interested Persons

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
ST CHARLES HEALTH SYSTEM INC

Employer identification number
93-0602940

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	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?		(c)Original principal amount	(d)Balance due	(e) In default?		(f) Approved by board or committee?		(g)Written agreement?	
	To	From			Yes	No	Yes	No	Yes	No
(1) DR WILLIAM MARTIN See Part V		X	235,000	35,000		No		No	Yes	
(2) DR STEVE KORNFELD See Part V		X	235,000	35,000		No		No	Yes	
(3) DR ROB BOONE See Part V		X	235,000	40,555		No		No	Yes	
Total					\$ 110,555					

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) JOSEPH SMITH	Former Key Employee	312,551	See Part V		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
Part II		SCHS paid certain expenses on behalf of physicians upon
Part II		employment and made further retention payments These
Part II		advances were treated as loans, which will be forgiven over a
Part II		three-year
Part II		period as long as the physicians remain employed in good
Part II		standing over the forgiveness period This method is consistent
Part II		with
Part II		SCHS's normal business practices The Board has delegated the
Part II		authority to executive management to make such loans to
Part II		physicians, and
Part II		the loans are reviewed by legal counsel The forgiveness of
Part II		these loans
Part II		is treated as taxable income and is reported in Form 990 Part
Part II		VII
Part II		and Schedule J
Part II		Drs Martin, Kornfeld, and Boone are current highest
Part II		compensated
Part II		employees
Part IV		Joseph Smith, former key employee of SCHS, operates a
Part IV		healthcare
Part IV		consulting company, Southern Cross Consulting, which was
Part IV		engaged by SCHS in 2011 to provide interim CEO services for
Part IV		Mt View Hospital District (MVHD) MVHD is an independent
Part IV		hospital which is managed by SCHS SCHS provides the CEO
Part IV		and CFO for MVHD as well as high-level financial and
Part IV		management
Part IV		services MVHD reimburses SCHS for CEO and CFO costs

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
 ST CHARLES HEALTH SYSTEM INC

Employer identification number
 93-0602940

Identifier	Return Reference	Explanation
Pt VI, Line 11a		The 990 was prepared internally and reviewed by an external consultant. It was
Pt VI, Line 11a		reviewed by the organization's Director of Accounting and the Sr. VP of Finance/CFO,
Pt VI, Line 11a		both CPAs. It was presented to the Audit Committee on behalf of the Board of
Pt VI, Line 11a		Directors for final review and approval before filing.
Pt VI, Line 12c		The Audit Committee is responsible for monitoring conflicts of interest.
Pt VI, Line 15		SCHS utilizes an independent outside consultant to provide comparability
Pt VI, Line 15		data regarding compensation for the CEO and top management officials.
Pt VI, Line 15		The analysis covers all elements of total compensation.
Pt VI, Line 15		The CEO compensation is reviewed and approved by the Board of Directors
Pt VI, Line 15		following an annual performance evaluation and compensation review. The
Pt VI, Line 15		evaluation and review process is prescribed in an internal policy and
Pt VI, Line 15		the process is documented. The most recent study for the CEO and top management
Pt VI, Line 15		officials was performed in November of 2011, of which the results showed the
Pt VI, Line 15		SCHS aggregate market position to be at the 44th percentile.
Pt VI, Line 15		Compensation for other top management officials
Pt VI, Line 15		is reviewed and approved by the President and CEO.
Pt VI, Line 19		Governing documents are available upon request. The Conflict of Interest policy
Pt VI, Line 19		is available to employees through a shared document management system.
Pt VI, Line 19		Financial reports are shared with employees monthly. Audited financial statements
Pt VI, Line 19		are available to the public upon request and on the internet at www.DACBond.com.

Identifier	Return Reference	Explanation
Parts IV, VI & VII		A questionnaire was sent to all persons listed in Part VII for purposes
Parts IV, VI & VII		of Part IV, Line 28, Part VI, Line 2, Part VII, Column (E) and (F)
Parts IV, VI & VII		for related organizations, for Schedule L, and for Schedule J
Part VIII, Line 2f		All Other Program Service Revenue consists of
Part VIII, Line 2f		\$10,785,443 Home Health & Hospice
Part VIII, Line 2f		\$8,041,233 Sage View Mental Health
Form 990, Part III, Line 4d		PIONEER MEMORIAL HOSPITAL, AIR LINK, HOME HEALTH & HOSPICE, 43448816 1288 69452250
Part VIII, Line 2f		\$5,533,314 Sleep Lab
Part VIII, Line 2f		\$2,626,733 Psychiatric Emergency
Part VIII, Line 2f		\$2,339,098 Behavioral Health
Part VIII, Line 2f		\$185,669 Rent from Affiliates
Part VIII, Line 2f		\$76,604 Area Health Education Center (AHEC)
Part IX, Line 11g		Other Fees for services include physician professional fees and standby pay,
Part IX, Line 11g		purchased exam fees, provider tax, send-out lab tests, consulting & planning,
Part IX, Line 11g		collection services, medical director services, recruiting, transcription,
Part IX, Line 11g		janitorial fees, and other fees
Part IX, Line 13		"Office Expenses" include Non-medical supplies, office supplies, minor
Part IX, Line 13		equipment, postage & shipping, publications, educational materials & forms,
Part IX, Line 13		utilities & telephone, lease & rental of equipment, repair &
Part IX, Line 13		maintenance of equipment, vehicle fuel & maintenance, food, and

Identifier	Return Reference	Explanation
Part IX, Line 13		employee recognition & safety
Part VI (B) Lines 12-16		Affirmative answers on Lines 12-16 also apply to the disregarded
Part VI (B) Lines 12-16		entity reported on Schedule R, Part I
Part XI Line 5		Other changes in net assets result from unrealized gains/losses, joint venture
Part XI Line 5		activity, and rounding on the audited financial statements
Part XI Line 5		Noncontrolling interests and unrealized gains/losses are
Part XI Line 5		reported differently on the financial statements and the Form
Part XI Line 5		990, according to the specific rules for each

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
ST CHARLES HEALTH SYSTEM INC

Employer identification number
93-0602940

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) ST CHARLES MANAGEMENT SERVICES ORGANIZATION 2500 NE NEFF RD BEND, OR 97701 20-5310273	Phys Bus Svcs See Part VII	OR	70,615		SCHS

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
(1) CASCADIA INSURANCE CO INC 1123 11TH AVE 403-A HONOLULU, HI 96816 87-0757855	Provides malpractice insurance for SCHS	HI	501(c)(3)	11-Type I	SCHS	Yes	
(2) ST CHARLES FOUNDATION 2500 NE NEFF RD BEND, OR 97701 94-3076293	Raises funds for SCHS and community programs	OR	501(c)(3)	7	SCHS	Yes	

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) Disproporionate 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	
(1) CASCADE MEDICAL IMAGING LLC 1460 NE MEDICAL CENTER DR BEND, OR 97701 93-1320712	Scanning Services	OR	NA	Related	5,054,967	8,498,405		No		Yes		70 000 %
(2) HEART CENTER OF THE CASCADES 2500 NE NEFF RD BEND, OR 97701 38-3724947	Medical Building	OR	NA	Related	-55,205	-1,411,661		No		Yes		50 000 %

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

1

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

a

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

b

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

c

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

d

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

e

Loans or loan guarantees by related organization(s)

f

Sale of assets to related organization(s)

g

Purchase of assets from related organization(s)

h

Exchange of assets with related organization(s)

i

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

j

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

k

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

l

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

m

Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)

n

Sharing of paid employees with related organization(s)

o

Reimbursement paid to related organization(s) for expenses

p

Reimbursement paid by related organization(s) for expenses

q

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

r

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

Yes

No

1a

1b

1c

1d

1e

1f

1g

1h

1i

1j

1k

1l

1m

1n

1o

1p

1q

1r

No

No

Yes

Yes

No

No

No

No

Yes

Yes

Yes

Yes

Yes

Yes

No

Yes

Yes

Yes

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) See Additional Data Table			
(2)			
(3)			
(4)			
(5)			
(6)			

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

[illegible]

Part VII

Supplemental Information

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

Identifier	Return Reference	Explanation
Part I		St Charles Management Services Organization (SCMSO) included both management
Part I		services and physician clinics SCMSO financial statements are fully consolidated
Part I		with SCHS End-of-year assets for SCMSO are not reported in Part I because
Part I		separate balance sheets were not maintained for this organization

Software ID: 11000175
Software Version:
EIN: 93-0602940
Name: ST CHARLES HEALTH SYSTEM INC

Form 990, Schedule R, Part V - Transactions With Related Organizations

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount Involved (\$)	(d) Method of determining amount involved
(1) HEART CENTER OF THE CASCADES LLC	d	4,661,000	Loan Document
(2) HEART CENTER OF THE CASCADES LLC	j	791,000	Book Value
(3) HEART CENTER OF THE CASCADES LLC	k	275,894	Book Value
(4) CASCADE MEDICAL IMAGING LLC	i	107,574	Book Value
(5) CASCADE MEDICAL IMAGING LLC	k	1,823,098	Book Value
(6) CASCADE MEDICAL IMAGING LLC	l	12,185,998	
(7) CASCADE MEDICAL IMAGING LLC	j	79,705	
(8) CASCADE MEDICAL IMAGING LLC	r	4,756,361	
(9) ST CHARLES FOUNDATION INC	c	1,052,385	
(10) ST CHARLES FOUNDATION INC	m	78,464	
(11) ST CHARLES FOUNDATION INC	n	418,542	
(12) CASCADIA INSURANCE COMPANY INC	p	435,519	
(13) CASCADIA INSURANCE COMPANY INC	l	120,000	



ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Financial Statements
and Supplementary Schedules

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

ST. CHARLES HEALTH SYSTEM, INC.

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Supplementary Schedules	
I Balance Sheet Information	30
II Statement of Operations Information	31



KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Directors
St Charles Health System, Inc

We have audited the accompanying consolidated financial statements of St Charles Health System, Inc., which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St Charles Health System, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in schedules I and II is presented for purposes of additional analysis and is 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Portland, Oregon
March 26, 2013

ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Balance Sheets

December 31, 2012 and 2011

Assets	2012	2011
Current assets		
Cash and cash equivalents	\$ 27,017,000	18,477,000
Assets limited as to use, current portion	7,671,000	8,033,000
Patient accounts receivable, net of reserves for uncollectible accounts of \$16,492,000 and \$13,785,000 at December 31, 2012 and 2011, respectively	61,990,000	76,772,000
Other receivables, net	9,706,000	6,922,000
Supplies inventory	8,935,000	9,365,000
Prepaid expenses and other current assets	7,225,000	6,564,000
Total current assets	122,544,000	126,133,000
Assets limited as to use, net of current portion	259,098,000	203,501,000
Property and equipment, net	211,063,000	223,057,000
Other assets, net	13,051,000	11,138,000
Total assets	\$ 605,756,000	563,829,000
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 19,023,000	21,730,000
Accrued liabilities	35,579,000	31,798,000
Estimated third-party payor settlements payable, net	5,058,000	3,549,000
Deferred revenue	349,000	1,068,000
Current portion of long-term obligations	9,707,000	9,298,000
Total current liabilities	69,716,000	67,443,000
Long-term obligations, net of current portion	156,723,000	165,340,000
Other liabilities	3,929,000	4,699,000
Total liabilities	230,368,000	237,482,000
Net assets		
Unrestricted, SCHS	367,414,000	318,617,000
Unrestricted, noncontrolling interests	2,959,000	2,693,000
Temporarily restricted	3,581,000	3,662,000
Permanently restricted	1,434,000	1,375,000
Total net assets	375,388,000	326,347,000
Total liabilities and net assets	\$ 605,756,000	563,829,000

See accompanying notes to consolidated financial statements

ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Statements of Operations

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenue		
Net patient service revenue prior to provision for bad debts	\$ 504,986,000	476,144,000
Provision for bad debts	<u>24,216,000</u>	<u>26,522,000</u>
Net patient service revenue	480,770,000	449,622,000
Other revenue	<u>24,367,000</u>	<u>17,271,000</u>
Total operating revenue	<u>505,137,000</u>	<u>466,893,000</u>
Expenses		
Salaries and wages	198,999,000	185,588,000
Employee benefits	65,034,000	59,496,000
Professional fees	36,205,000	39,294,000
Depreciation	31,175,000	30,816,000
Interest	13,020,000	13,114,000
Medical supplies, drugs, and other	<u>139,783,000</u>	<u>130,231,000</u>
Total expenses	<u>484,216,000</u>	<u>458,539,000</u>
Excess of revenues over expenses from operations	<u>20,921,000</u>	<u>8,354,000</u>
Other income (losses)		
Investment income, net	27,421,000	2,042,000
Other, net	<u>107,000</u>	<u>(200,000)</u>
Total other income, net	<u>27,528,000</u>	<u>1,842,000</u>
Excess of revenue over expenses	48,449,000	10,196,000
Gain on discontinued operations	2,499,000	502,000
Net assets released from restriction for capital	516,000	183,000
Capital contributions	43,000	—
Other transfers	(20,000)	(34,000)
Distributions	<u>(2,424,000)</u>	<u>(2,038,000)</u>
Increase in unrestricted net assets	<u><u>\$ 49,063,000</u></u>	<u><u>8,809,000</u></u>

See accompanying notes to consolidated financial statements

ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2012 and 2011

	Unrestricted – SCHS	Unrestricted noncontrolling interests	Temporarily restricted	Permanently restricted	Total
Net assets at December 31, 2010	\$ 309,951,000	2,550,000	3,590,000	1,414,000	317,505,000
Excess of revenue over expenses	8,015,000	2,181,000	—	—	10,196,000
Gain on discontinued operations	502,000	—	—	—	502,000
Restricted contributions	—	—	1,176,000	—	1,176,000
Net assets released from restriction	183,000	—	(1,073,000)	—	(890,000)
Other transfers	(34,000)	—	30,000	4,000	—
Distributions	—	(2,038,000)	(42,000)	—	(2,080,000)
Other changes in net assets	—	—	(19,000)	(43,000)	(62,000)
Change in net assets	8,666,000	143,000	72,000	(39,000)	8,842,000
Net assets at December 31, 2011	318,617,000	2,693,000	3,662,000	1,375,000	326,347,000
Excess of revenue over expenses	45,759,000	2,690,000	—	—	48,449,000
Gain on discontinued operations	2,499,000	—	—	—	2,499,000
Restricted contributions	—	—	1,760,000	—	1,760,000
Net assets released from restriction	516,000	—	(1,978,000)	—	(1,462,000)
Other transfers	(20,000)	—	2,000	18,000	—
Distributions	—	(2,424,000)	—	—	(2,424,000)
Other changes in net assets	43,000	—	135,000	41,000	219,000
Change in net assets	48,797,000	266,000	(81,000)	59,000	49,041,000
Net assets at December 31, 2012	\$ 367,414,000	2,959,000	3,581,000	1,434,000	375,388,000

See accompanying notes to consolidated financial statements

ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Increase in net assets	\$ 49,041,000	8,842,000
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	31,524,000	31,497,000
Net unrealized (gain) loss on investments	(20,440,000)	9,391,000
Gain on sale of property and equipment	(3,384,000)	(26,000)
Accretion of debt obligation	313,000	323,000
Restricted contributions	(1,760,000)	(1,176,000)
Distributions to noncontrolling owners	2,424,000	2,038,000
Changes in certain operating assets and liabilities		
Patient accounts receivable	14,782,000	(6,497,000)
Other receivables, net	(2,784,000)	(3,829,000)
Supplies inventory	430,000	(4,258,000)
Other assets, net	(2,325,000)	(2,529,000)
Accounts payable	(2,154,000)	1,236,000
Accrued liabilities	3,781,000	(391,000)
Estimated third-party payor settlements payable, net	1,509,000	2,252,000
Deferred revenue	(719,000)	(64,000)
Other liabilities	(770,000)	1,773,000
Net cash provided by operating activities	<u>69,468,000</u>	<u>38,582,000</u>
Cash flows from investing activities		
Purchases of investments	(90,992,000)	(46,020,000)
Proceeds from sale of investments	56,197,000	25,412,000
Distributions from joint ventures	2,655,000	2,136,000
Proceeds from sale of property and equipment	3,064,000	134,000
Purchases of property and equipment	<u>(21,706,000)</u>	<u>(13,242,000)</u>
Net cash used in investing activities	<u>(50,782,000)</u>	<u>(31,580,000)</u>
Cash flows from financing activities		
Payments on long-term obligations	(9,482,000)	(9,965,000)
Proceeds from restricted contributions	1,760,000	1,176,000
Distributions to noncontrolling owners	<u>(2,424,000)</u>	<u>(2,038,000)</u>
Net cash used in financing activities	<u>(10,146,000)</u>	<u>(10,827,000)</u>
Net increase (decrease) in cash and cash equivalents	8,540,000	(3,825,000)
Cash and cash equivalents at beginning of year	<u>18,477,000</u>	<u>22,302,000</u>
Cash and cash equivalents at end of year	\$ <u><u>27,017,000</u></u>	<u><u>18,477,000</u></u>
Supplemental disclosures		
Cash paid for interest	\$ 13,108,000	12,915,000
Change in property and equipment in accounts payable	(553,000)	2,016,000
Increase in notes receivable upon disposition of property and equipment	2,904,000	—

See accompanying notes to consolidated financial statements

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(1) Business, Organization, and Summary of Significant Accounting Policies

(a) *Business and Organization*

St. Charles Health System, Inc. (SCHS or the Corporation) is an Oregon nonprofit corporation that operates a healthcare delivery system, which includes three hospitals in Central Oregon: St. Charles Medical Center Bend (St. Charles Bend), St. Charles Medical Center Redmond (St. Charles Redmond), and Pioneer Memorial Hospital in Prineville (PMH), as well as several other lines of healthcare-related businesses. SCHS also manages one other hospital, Mountain View Hospital District (MVHD), located within its primary service area in Madras. These management services include strategic support, management personnel, and information technology support. Effective January 1, 2013, SCHS purchased substantially all of the assets and operations of MVHD and assumed substantially all of their liabilities, as discussed in note 12. SCHS provides healthcare and healthcare-related services primarily to residents in Central, Southeastern, and Eastern Oregon. In addition, SCHS is the sole member of Cascadia Insurance Company, Inc. (CICI), a captive insurance company domiciled in Hawaii, established for the purpose of providing malpractice insurance coverage for SCHS. SCHS is also the sole member of St. Charles Management Services Organization LLC (SCMSO), a limited liability company that provides billing services to physicians and medical clinics. These healthcare businesses and subsidiaries, along with the Corporation's home office, form the obligated group. The assets of any one are available for the satisfaction of debts of the others within the obligated group (subject to certain contractual limitations).

The St. Charles Foundation, Inc. (SCF), an Oregon nonprofit corporation, was established to engage in and conduct charitable, educational, and scientific activities and to raise funds in support of SCHS. The Corporation is the sole member of SCF, and SCF is included in the consolidated financial statements of SCHS but is not a member of the obligated group. The net assets of SCF are reported as unrestricted, temporarily restricted or permanently restricted, according to donor or legal restrictions, in the accompanying consolidated financial statements.

SCHS also has a controlling interest in Cascade Medical Imaging, LLC (CMI). CMI is a limited liability corporation whose two members are SCHS (70% ownership interest) and Central Oregon Radiology Associates, P.C. (CORA) (30% ownership interest). CMI provides positron emission tomography (PET) scanning, computer-assisted tomography (CT) scanning, nuclear medicine, mammography, and picture archiving and communications system (PACS) services in Central, Southeastern, and Eastern Oregon. CMI has been consolidated into the financial statements of SCHS but is not part of the obligated group.

(b) *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts and transactions of SCHS, CICI, SCMSO, SCF, and CMI. All material intercompany accounts and transactions have been eliminated in consolidation.

(c) *Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue, income, gains, expenses, and losses during the reporting period. Actual results could differ from those estimates. The significant estimates in the Corporation's consolidated financial statements include accounts receivable allowances, third-party payor settlement liabilities, valuation of investments, and liabilities related to self-insurance programs.

(d) *Cash and Cash Equivalents*

Cash and cash equivalents consist of petty cash and cash in demand bank accounts. Amounts held in demand bank accounts are often in excess of Federal Deposit Insurance Corporation (FDIC) coverage levels.

(e) *Assets Limited as to Use*

Assets limited as to use primarily consist of assets internally designated for future capital acquisitions and operating purposes (over which SCHS retains control and may, at its discretion, subsequently use for other purposes), assets held by a trustee under bond indenture agreements and temporarily and permanently restricted funds held by SCF. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices in the accompanying consolidated financial statements.

The investment in the Oregon Community Foundation (OCF) represents a beneficial interest in a recipient organization. SCHS established an interest in OCF by contributing funds to its investment portfolio. The value of this interest is then adjusted at a rate proportional to its investment returns obtained by OCF on their investment portfolio. SCHS recognizes their interest in the net assets of OCF and adjusts that interest for its share of the change in the value of the investment portfolio using a method that is similar to the equity method of accounting for investments in common stock.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values of this investment. Furthermore, while SCHS believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investment income or loss (including interest, dividends, realized gains and losses, and unrealized gains and losses) is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law.

Trading securities are debt and equity securities that are bought and held principally for the purpose of selling them in the near term. The Corporation classifies all of its investments in internally designated assets as trading securities, based on the nature of trading activity in its portfolio by the Corporation's investment manager.

As of December 31, 2012 and 2011, the Corporation had investments in equity and fixed-income mutual funds, corporate obligations, US government agency and treasury securities, commercial paper, and an interest in the OCF. Management believes that the Corporation's credit risk with respect to these investments is minimal due to the diversity of the individual investments and the

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

financial strength of the entities, which have issued the securities or instruments. However, due to changes in economic conditions, interest rates, and common stock prices, the fair value of the Corporation's investments can be volatile. Consequently, the fair value of the Corporation's investments can significantly change in the near term as a result of such volatility.

(f) *Patient Accounts Receivable, Allowance for Doubtful Accounts, and Other Receivables*

The collection of receivables from third-party payors and patients is SCHS' primary source of cash and is critical to its operating performance. When SCHS provides care to patients, it does not require collateral, however, it maintains an estimated allowance for doubtful accounts. Additionally, SCHS adjusts accounts receivable balances to estimated collectible balances based on the terms of contracts in place with third-party payors. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (generally deductibles and copayments) remain outstanding. The allowance for doubtful accounts is estimated based upon SCHS' historical collection experience, the age of the patient's account, management's estimate of the patient's economic ability to pay, and the effectiveness of collection efforts. Patient accounts receivable balances are routinely reviewed in conjunction with historical collection rates and other economic conditions that might ultimately affect the collectibility of patient accounts when considering the adequacy of the amounts recorded in the allowance for doubtful accounts. Actual write-offs have historically been within management's expectations. Significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage could affect SCHS' collection of patient accounts receivable, cash flows, and results of operations.

SCHS' write-offs of accounts receivable for which patients have financial responsibility were \$19,041,000 and \$23,451,000 in fiscal 2012 and 2011, respectively. As a result of the decrease in write-offs and estimated uncollectible amounts, total bad debt expense, which is a reduction in deriving net patient service revenue, for the years ended December 31, 2012 and 2011 was \$24,216,000 and \$26,522,000, respectively. The Corporation also maintains an allowance for doubtful accounts for third-party payors, which has been determined based on historical bad debt expense on those account types.

Significant concentrations of gross patient accounts receivable as of December 31, 2012 and 2011 were approximately as follows:

	2012	2011
Medicare and Medicare managed care contracts	26%	28%
Medicaid and Oregon Health Plan (OHP)	13	14
Commercial and managed care insurance	35	33
Self-pay	26	25
	100%	100%

(g) *Supplies Inventory*

Supplies inventory is recorded at the lower of cost (first-in, first-out method) or market.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The consolidated financial statements for the year ended December 31, 2011 include a correction in SCHS' accounting for certain components of their inventory. Previously, certain supplies were expensed when purchased. Management has determined that these supplies should be reflected more appropriately as an asset prior to their consumption in the provision of healthcare services. To adjust for the change at December 31, 2011, supplies inventory was increased by \$3,429,000 resulting in a reduction to the related medical supplies expense balance in the consolidated statement of operations for the year ended December 31, 2011 in the same amount.

(h) *Property and Equipment*

Property and equipment acquisitions are recorded at cost. Donated property and equipment items are recorded on the basis of estimated fair value at the date of donation. Improvements and replacements of property and equipment are capitalized. Maintenance and repairs are charged to expense as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Assets under capital lease obligations are amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included in depreciation expense in the accompanying consolidated financial statements. Net interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Estimated useful lives are as follows:

Land improvements	5 – 25 years
Buildings and fixed equipment	5 – 40 years
Furniture and moveable equipment	3 – 20 years

Management reviews property and equipment for possible impairment whenever events or circumstances indicate the carrying amount of such assets may not be recoverable. If there is an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value.

Contributions of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions as support when the donated or acquired long-lived assets are placed in service.

(i) *Contributions and Grants*

Unrestricted donations and grants are recorded as other operating revenue. Donor-restricted contributions and grants are recorded as additions to the appropriate class of net assets. When capital expenditures are made consistent with the purpose intended by the donor, a transfer is made from temporarily restricted net assets to unrestricted net assets. If restricted amounts are expended for

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

operations, the amounts are recorded as other revenues in the accompanying consolidated statements of operations

(j) Other Assets

Other assets include SCHS' investments in various related entities, which are not consolidated. SCHS consolidates such investees if it owns a majority of the investee's stock, is the sole member of the investee, or controls a majority voting interest in the investee's board of directors and has an economic interest in such investee. If SCHS owns 50% or less of the voting stock of an investee and can exercise significant influence over the investee's operating and financial policies (generally presumed to be when SCHS owns more than 20% of the voting stock of the investee), SCHS accounts for such investments under the equity method of accounting, whereby SCHS records its proportionate share of the investee's income or loss in the consolidated statements of operations and records distributions received from the investee as a reduction in the related investment balance. If SCHS cannot exercise significant influence over the investee's operating and financial policies (generally presumed to be when SCHS owns less than 20% of the voting stock of the investee), SCHS accounts for such investments at cost and records dividends or distributions from the investee as other income when received.

(k) Unamortized Bond Discount

Unamortized bond discount, a component of long-term obligations, is amortized to interest expense over the term of the related bonds using the effective-interest method.

(l) Net Patient Service Revenue

SCHS has agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, outpatient case rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts due and determined to be collectible from patients, third-party payors, and others for services rendered and includes estimates for potential retroactive revenue adjustments under reimbursement agreements with third-party payors. Such estimates are adjusted in future periods as final settlements are determined.

A significant portion of SCHS' services are provided to Medicare, Medicaid, and Oregon Health Plan (OHP) patients under contractual arrangements. Inpatient acute care services rendered by SCHS to Medicare, Medicaid, and OHP program beneficiaries are generally reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors (i.e., Medicare severity-diagnosis related groups or MS-DRGs). Such payments include a capital cost component and may be greater or less than the actual charges for services. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. Home health services related to Medicare beneficiaries are reimbursed under a prospective payment system methodology. OHP outpatient services are reimbursed based on a percentage of charges. SCHS is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after audits of SCHS' annual cost reports by the Medicare fiscal intermediary and Medicaid. St. Charles Bend's cost reports have been audited and final settled by the Medicare fiscal intermediary and Medicaid through

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

December 31, 2008 and December 31, 2006, respectively. St. Charles Redmond's cost reports have been audited and final settled by the Medicare fiscal intermediary and Medicaid through December 31, 2009 and December 31, 2008, respectively.

PMH is a "critical access hospital" (CAH) for Medicare and Medicaid program purposes. As a CAH, PMH cannot operate more than 25 beds, and PMH's average length of stay for acute care patients cannot exceed 96 hours. As a CAH, PMH is reimbursed for Medicare and Medicaid inpatient and outpatient services under a cost-reimbursement methodology. PMH's cost reports have been audited and final settled by the Medicare fiscal intermediary and Medicaid through December 31, 2010 and December 31, 2009, respectively.

The laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that estimated third-party payor settlements payable, net, will change by a material amount in the near term. Net patient service revenue was increased by approximately \$4,243,000 and \$1,128,000 for the years ended December 31, 2012 and 2011, respectively, as a result of final settlements of prior years cost reports and revisions of estimates for prior years cost report settlements.

SCHS has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations to provide medical services to subscribing participants. The basis for payment to SCHS under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined fee schedules, and certain capitated per member per month payment arrangements.

(m) Charity Care

SCHS provides services without charge, or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. SCHS' criteria for the determination of charity care include the patient's – or other responsible party's – annual household income, number of people in the home and claimed on taxes, assets, credit history, existing medical debt obligations, and other indicators of the patient's ability to pay. Generally, those individuals with an annual household income at or less than 100% of the Federal Poverty Guidelines (the Guidelines) qualify for charity care under SCHS' policy. In addition, SCHS provides discounts on a sliding scale to those individuals with an annual household income of between 100% and 300% of the Guidelines. Since SCHS does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported as net patient service revenue. The cost of the services and supplies furnished under the charity care policy for the years ended December 31, 2012 and 2011 was approximately \$16,634,000 and \$11,236,000, respectively. The Corporation uses a ratio of cost to charges based on the direct and indirect costs and gross charges of SCHS to estimate the cost of providing this charity care. The cost to charge ratio is developed separately for each facility by using SCHS' cost accounting system in conjunction with other analysis tools. The weighted average cost to charge ratio used in this determination was 46.0% and 39.7% for the years ended December 31, 2012 and 2011, respectively. The amount of subsidies received by SCHS for providing charity care for the years ended December 31, 2012 and 2011 was approximately \$1,143,000 and \$1,096,000, respectively.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(n) Consolidated Statements of Operations

For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenue and expenses. SCHS' income from investments in healthcare-related joint ventures recorded on the equity method of accounting is reported as other operating revenue. Peripheral or incidental transactions are reported as other income (losses).

The performance indicator for the accompanying consolidated statements of operations is excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from the excess of revenue over expenses, consistent with industry practice, include the change in net assets released from restrictions used for purchases of property and equipment, contributions for property and equipment, distributions to noncontrolling interest, discontinued operations of Airlink, refer to note 11, and net asset transfers.

(o) State of Oregon Provider Tax

Effective July 1, 2004, the State of Oregon instituted a provider tax on certain qualifying hospitals. SCHS recorded provider taxes of approximately \$15,708,000 and \$11,922,000 for the years ended December 31, 2012 and 2011, respectively, which are included in medical supplies, drugs, and other expense in the accompanying consolidated statements of operations. The increase in the 2012 tax is attributed primarily to increased gross charges and provider tax rate changes instituted in July 2011 and January 2012 by the State of Oregon. In addition, SCHS has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments owed to SCHS related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to SCHS. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to qualifying hospitals on a quarterly basis. SCHS estimates the amount of receipts via the quarterly redistribution process from OAHHS for the years ended December 31, 2012 and 2011 will match the annual amounts of taxes paid, which is reflected as a component of net patient service revenue in the accompanying consolidated statements of operations.

(p) Income Taxes

The Corporation has received a determination letter from the Internal Revenue Service (IRS) stating that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code except for tax on unrelated business income. It is management's belief that none of its activities have produced material unrelated business income, and that SCHS continues to be operated in a manner that qualifies it for tax-exempt status.

Accounting principles generally accepted in the United States of America require SCHS' management to evaluate tax positions taken by the Corporation and recognize a tax liability (or asset) if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by the Corporation and has concluded that as of December 31, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The Corporation is subject to routine audits by taxing jurisdictions, however, there are currently no audits for any tax periods in progress. The Corporation's management believes it is no longer subject to income tax examinations for years prior to 2009.

(q) *Reclassifications*

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(2) **Assets Limited as to Use**

The composition of assets limited as to use as of December 31, 2012 and 2011 is set forth in the following table. Investments are carried at fair value.

	<u>2012</u>	<u>2011</u>
Internally designated for capital acquisitions		
Cash and cash equivalents	\$ —	12,000
Equity mutual funds	179,111,000	116,663,000
Fixed-income mutual funds	57,773,000	65,918,000
International bonds	—	7,000
Corporate obligations	—	163,000
U.S. government agency and treasury securities	—	181,000
Accrued interest receivable	—	4,000
Total internally designated for capital acquisitions	<u>236,884,000</u>	<u>182,948,000</u>
Internally designated for operating purposes		
Cash and cash equivalents	727,000	504,000
Equity mutual funds	385,000	426,000
Fixed-income mutual funds	307,000	434,000
Corporate obligations	271,000	267,000
U.S. government agency and treasury securities	3,938,000	3,840,000
Cash surrender value of life insurance	248,000	229,000
Total internally designated for operating purposes	<u>5,876,000</u>	<u>5,700,000</u>
Total internally designated	<u>242,760,000</u>	<u>188,648,000</u>
Held by trustee		
Cash and cash equivalents	7,671,000	8,033,000
Corporate obligations	10,132,000	10,329,000
Total held by trustee	<u>17,803,000</u>	<u>18,362,000</u>

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Board designated endowment		
Investment in Oregon Community Foundation	\$ 1,448,000	1,377,000
Donor restricted – temporarily		
Cash and cash equivalents	16,000	698,000
Equity mutual funds	1,827,000	1,053,000
Fixed-income mutual funds	1,465,000	20,000
Donor restricted – permanently		
Investment in Oregon Community Foundation	717,000	683,000
Cash and cash equivalents	15,000	11,000
Equity mutual funds	363,000	341,000
Fixed-income mutual funds	355,000	341,000
Total assets limited as to use	<u>266,769,000</u>	<u>211,534,000</u>
Less portion reported as current	<u>(7,671,000)</u>	<u>(8,033,000)</u>
Total assets limited as to use, net of current portion	<u>\$ 259,098,000</u>	<u>203,501,000</u>

Investment income, net, consisted of the following for the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 6,874,000	5,278,000
Realized gains on sales of securities, net	107,000	6,155,000
Unrealized gains (losses) on trading securities, net	<u>20,440,000</u>	<u>(9,391,000)</u>
Investment income, net	<u>\$ 27,421,000</u>	<u>2,042,000</u>

SCHS maintains investments with OCF. The investments are used solely to support the endowments of SCHS, and are recorded as a beneficial interest by SCHS, in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-20, *Not-for-Profit Entities – Financially Interrelated Entities*, regarding financially interrelated not-for-profit entities. The investments, which represent an endowment fund that is legally owned by the OCF, primarily include equity securities and fixed-income investments. SCHS' investment in the OCF is recorded based on their initial contribution to the OCF, adjusted for subsequent changes. All earnings of the investments held by the OCF, less investment management fees charged by the OCF, are allocated by OCF, and are recorded by SCHS as investment earnings in the consolidated statements of operations, within the appropriate category of net assets based on related donor restrictions. Earnings consist of interest, dividends, realized gains and losses, and changes in unrealized gains and losses. Funds held by OCF may be distributed once per quarter, subject to approval by the OCF board of directors.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(3) Property and Equipment

Property and equipment consisted of the following at December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Land and improvements	\$ 15,894,000	15,902,000
Buildings and fixed equipment	247,023,000	240,163,000
Furniture and movable equipment	181,228,000	197,292,000
	<u>444,145,000</u>	<u>453,357,000</u>
Less accumulated depreciation	<u>(240,172,000)</u>	<u>(235,960,000)</u>
	203,973,000	217,397,000
Construction in progress	<u>7,090,000</u>	<u>5,660,000</u>
Property and equipment, net	<u>\$ 211,063,000</u>	<u>223,057,000</u>

Construction in progress includes costs incurred in connection with various construction projects and costs incurred related to the acquisition and implementation of various software applications. As of December 31, 2012, management estimates that the remaining cost to complete the construction projects is approximately \$2,122,000, and the remaining cost to complete the software acquisitions and implementations is approximately \$4,625,000.

(4) Restricted Net Assets

Restricted net assets are held by SCF and are those whose use has been limited by donor-imposed restrictions to a specific time period and/or purpose. SCF also holds funds that are not donor restricted for a specific purpose and are distributed to SCHS in amounts and in periods determined by SCF's board of directors. SCF's temporarily restricted net assets are distributed to SCHS or other recipients for the purposes specified by the donors. SCF's permanently restricted net assets consist of the principal amount of contributions accepted by SCF with the stipulation from donors that the principal be maintained in perpetuity and only the income from investments thereof be expended to support SCF's general activities or restricted purposes, as stipulated by the respective donors.

During 2012 and 2011, net assets were released from donor restrictions by SCHS incurring operating expenses satisfying the restricted purpose of approximately \$1,462,000 and \$890,000, respectively, and are included in other revenue. Further, approximately \$516,000 and \$183,000 were released from restriction to SCHS for capital expenditures made during 2012 and 2011, respectively.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Temporarily and permanently restricted net assets are available for the following purposes at December 31, 2012 and 2011

	2012	2011
Temporarily restricted		
Education and research	\$ 796,000	1,081,000
Indigent care	150,000	79,000
Patient care operating activities	1,531,000	1,804,000
Purchase of property and equipment	1,104,000	698,000
Net assets, temporarily restricted	<u>\$ 3,581,000</u>	<u>3,662,000</u>
Permanently restricted		
Education and research	\$ 447,000	438,000
Indigent care	987,000	937,000
Net assets, permanently restricted	<u>\$ 1,434,000</u>	<u>1,375,000</u>

SCF has adopted investment and spending policies for endowment assets to provide a predictable stream of funding to programs supported by its endowment and to maintain the value of the endowment assets. Asset allocation is reviewed quarterly with respect to i) SCF's tolerance for risk based on its financial condition and need for cash from investments to support operations, ii) expected asset class return, risk, and correlation characteristics, and iii) changes in accounting guidance, tax law, or other restrictions.

SCF's spending practices are intended to comply with donor's wishes and meet all applicable laws and regulations. Spending must be for a purpose that is consistent with the documented intent of the donor, and may not exceed the amounts annually determined by the SCF's board of directors. Factors that are considered in addressing the annual spending allocation are i) market value of the fund relative to the principal of the gift and ii) the level of spending in prior years.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires SCF to retain as a fund of perpetual duration. Deficiencies of this nature are reported as a reduction to unrestricted net assets and are excluded from the performance indicator.

SCF follows the guidance in the UPMIFA in determining the net asset classification of all donor-restricted endowment funds. In accordance with board policy, assets classified as permanent endowments in accordance with donor intent are only utilized for current period expenditures to the extent that earnings on the endowment exceed the original fair value of the donation. To the extent earnings on endowment funds exceed identified expenditures on which to apply those earnings, the earnings are classified as temporarily restricted net assets. As of December 31, 2012 and 2011, unspent earnings on endowment funds totaling \$215,000 and \$123,000, respectively, were included in temporarily restricted net assets.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(5) Debt Agreements

Long-term obligations consisted of the following at December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Hospital Facility Authority of Deschutes County Oregon (the Authority) Hospital Revenue Refunding Bonds Series 2008 (the 2008 Bonds)	\$ 103,460,000	103,460,000
The Authority Hospital Revenue Bonds Series 2005B (the 2005B Bonds)	46,600,000	47,525,000
The Authority Hospital Revenue Bonds Series 2002 (the 2002 Bonds)	—	1,720,000
GE Healthcare Finance Notes Payable	—	1,010,000
Wells Fargo Bank and Wells Equipment Finance Notes Payable	1,151,000	1,116,000
GE Healthcare Financial Notes Payable	635,000	1,051,000
U S Bancorp Technology Leasing Master Lease	4,976,000	7,660,000
Bend Ortho Building Associates Lease	8,760,000	8,567,000
Banc of America Leasing Healthcare Finance	1,901,000	3,450,000
Other	508,000	733,000
Less unamortized discount on bonds, net	<u>(1,561,000)</u>	<u>(1,654,000)</u>
Total long-term obligations	166,430,000	174,638,000
Less current portion	<u>(9,707,000)</u>	<u>(9,298,000)</u>
Long-term obligations, net of current portion	<u>\$ 156,723,000</u>	<u>165,340,000</u>

In December 2008, the Authority issued the 2008 Bonds in the amount of \$103,460,000. The proceeds of the 2008 Bonds were primarily used to advance refund the 2005A Bonds, make the termination payment related to a swap agreement, and establish a debt service reserve fund. The 2008 Bonds bear interest at rates ranging from 5.500% to 8.250% payable semiannually each January 1 and July 1 and require annual principal payments each January 1 (including mandatory redemptions) ranging from \$1,420,000 in 2013 to \$12,000,000 in 2038. The 2008 Bonds maturing on and after January 1, 2020 are subject to optional redemption prior to maturity, at the option of the Authority (such option shall be exercised at the request of the Corporation), at par, plus accrued interest.

In December 2005, SCHS entered into agreements with the Authority, whereby the Authority issued the 2005B Bonds in the amount of \$51,800,000 (the 2005 Bonds). The proceeds from the 2005B Bonds were primarily used to finance certain capital additions and improvements at St. Charles Bend and St. Charles Redmond. The 2005B Bonds bear interest at rates ranging from 4.000% to 5.375% payable semiannually each January 1 and July 1 and require annual principal payments each January 1 (including mandatory redemptions) ranging from \$925,000 in 2013 to \$7,150,000 in 2035.

In April 2002, SCHS entered into an agreement with the Authority, whereby the Authority issued the 2002 Bonds in the amount of \$75,000,000. The proceeds from the 2002 Bonds were primarily used to finance certain capital additions and improvements at St. Charles Bend and St. Charles Redmond. The 2002 Bonds

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

bore interest at rates ranging from 4.700% to 5.000% payable semiannually each January 1 and July 1. The final annual principal payment was made in January 2012.

Under the terms of the agreements (the Agreements) between SCHS and the Authority related to the 2005B Bonds and the 2002 Bonds (collectively, the 2005B and 2002 Bonds), SCHS has (1) collateralized the 2005B and 2002 Bonds with SCHS' gross receivables (as defined in the Agreements) and (2) obtained bond insurance which unconditionally guarantees payment of principal and interest on the 2005B and 2002 Bonds. Under the terms of the agreement (the 2008 Agreement) between SCHS and the Authority related to the 2008 Bonds, SCHS has (1) collateralized the 2008 Bonds with SCHS' gross receivables (as defined in the 2008 Agreement) and (2) agreed to grant a leasehold deed of trust on the St. Charles Bend main hospital building and related improvements to the trustee for the 2008 Bonds (the Trustee), as well as entered into a 50-year ground lease related to the underlying land for this property with the Trustee. Additionally, SCHS has agreed to not create or allow any other mortgage, pledge, or security in SCHS' facilities, except as permitted in the Agreements, maintain certain reserve funds with a trustee, and meet certain financial ratios on an annual basis.

The note payable to GE Healthcare Finance, which was used to finance the purchase of a helicopter and the remodel of a hangar, bore interest at a fixed rate of 5.97% and was collateralized by a security interest in the helicopter. The note was paid off in May 2012 with the closure of Airlink, as discussed in note 11 Discontinued Operations.

In July 2007, SCHS entered into a lease agreement with U.S. Bancorp Technology Leasing (the U.S. Bancorp Master Lease Agreement) to partially finance the acquisition and implementation of an information system. As of December 31, 2012, \$4,976,000 was outstanding related to six leases under the U.S. Bancorp Master Lease Agreement. As of December 31, 2012, monthly lease payments for these leases totaling \$233,000 (including interest at 6.7% to 7.7%) are required up to September 2013 at which point SCHS intends to pay off the remaining obligations under this U.S. Bancorp Master Lease Agreement due to a planned replacement of the information system.

The Bend Ortho Building Associates lease represents a lease of an approximately 30,000-square-foot building that expires on December 31, 2014, with two 5-year renewal options. Under this agreement, SCHS has the option to purchase the building on December 31, 2014 – or at the end of either of the subsequent renewal periods – at a price determined based on a formula that includes the net operating income of the building and a capitalization rate, all as defined in the lease agreement. In addition, the lessor has the right at any time during the lease term (including renewals) to require SCHS to purchase the building at a price using this same formula. Under the terms of the lease, SCHS is required to make monthly payments of approximately \$66,000. Additionally, SCHS incurs annual interest expense, representing the accretion of the obligation, in order to have the purchase obligation under the lease properly recorded.

In September 2003, SCHS entered into a sublease agreement with the Authority, whereby the Authority financed the construction of a central utility plant and related energy management systems (the Plant) for St. Charles Bend with a lease agreement with Banc of America Healthcare Finance (B of A) (collectively, the B of A Master Lease and Sublease Agreement). Under the terms of the B of A Master Lease and Sublease Agreement, SCHS is required to make monthly payments of \$140,000 through March 2014, including interest at 4.65%. Upon receipt of the final scheduled lease payment, B of A shall terminate and

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

release its security interest in the Plant to SCHS. SCHS has the option to purchase the Plant at any time during the term of the B of A Master Lease and Sublease Agreement by paying the remaining lease payments, plus a 1.00% prepayment penalty multiplied by the number of years remaining in the term of the lease.

Notes payable to Wells Fargo Bank, Wells Equipment Finance, and GE Healthcare Financial represent various equipment financing arrangements at CMI. The notes bear interest ranging from 3.50% to 6.83%, mature at various times from 2013 to 2017, and are secured by equipment.

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

	<u>Long-term debt</u>	<u>Capital lease obligations</u>
2013	\$ 3,043,000	7,708,000
2014	3,008,000	1,176,000
2015	2,970,000	9,282,000
2016	2,966,000	43,000
2017	2,967,000	—
Thereafter	137,157,000	—
	<u>\$ 152,111,000</u>	<u>18,209,000</u>
Less amount representing interest under capital lease obligations		<u>(2,329,000)</u>
		<u>\$ 15,880,000</u>

The above described debt instruments carry various financial covenants that the Corporation is required to measure on an annual basis.

As of December 31, 2012, SCHS had a \$3,000,000 unsecured line-of-credit agreement with U.S. Bank. There were no amounts outstanding under this line-of-credit agreement at December 31, 2012 or 2011. Borrowings outstanding under this line-of-credit agreement bear interest at the greater of the U.S. Bank's prime rate plus 0.50% or 3.75%. The line of credit expires on November 30, 2013.

Interest cost incurred during the years ended December 31, 2012 and 2011 was \$13,038,000 and \$13,216,000, respectively. No interest expense or interest income was capitalized during the years ended December 31, 2012 and 2011.

(6) Commitments and Contingencies

(a) Operating Leases

SCHS leases office space and equipment under operating lease agreements, which expire at various dates through 2026. Certain of these lease agreements contain renewal options. A portion of the leased office space has been subleased to unrelated third parties. In addition, effective January 1, 2008, SCHS leased the land, buildings, and equipment of PMH (the PMH Lease) and the lessor is

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Pioneer Memorial Hospital As of December 31, 2012, future minimum rental commitments for the five years subsequent to and thereafter, under noncancelable operating lease agreements, that have initial or remaining lease terms in excess of a year were as follows

2013	\$	4,792,000
2014		4,417,000
2015		3,620,000
2016		1,996,000
2017		738,000
Thereafter		<u>5,870,000</u>
Total minimum lease payments		21,433,000
Less total minimum sublease rentals		<u>(581,000)</u>
	\$	<u><u>20,852,000</u></u>

Included in the commitments above are lease payments required under the PMH Lease. Such payments vary by year based on PMH's future required debt and lease payments that were in effect as of January 1, 2008. Such future minimum lease payments total approximately \$8,110,000 and decrease from approximately \$607,000 in 2013 to approximately \$170,000 in 2026 (at which time, all currently outstanding PMH debt and lease payments will have been paid). In addition, the PMH Lease requires SCHS to annually invest a minimum of \$200,000 toward capital purchases and renovations at PMH through the term of the lease (2031), plus certain additional amounts based on PMH's operating results. The PMH Lease may be terminated by either party with 24 month notice as described in the lease.

Certain of the leases above are with related entities. As of December 31, 2012, the total future minimum rental commitments expected to be paid on these related entity leases aggregate approximately \$4,563,000.

Rent expense totaled \$7,638,000 and \$8,767,000 for the years ended December 31, 2012 and 2011, respectively, and is included in medical supplies, drugs, and other in the accompanying consolidated statements of operations.

(b) *Medical Malpractice Insurance*

SCHS is self-insured for malpractice and other general liability coverage through Cascadia Insurance Company, Inc. (CICI), a captive insurance company wholly owned by SCHS. CICI provides coverage of SCHS' claims up to a \$500,000 per occurrence limit and a \$3,000,000 annual aggregate limit, and SCHS purchases excess insurance for claims exceeding such limits. CICI's coverage for SCHS is retroactive to occurrences since July 1, 2004 reported after July 1, 2005. Under SCHS' policy with CICI, medical malpractice claims reported by SCHS to CICI during the policy period are covered, however, any medical malpractice claim that has been incurred but not reported (IBNR) to CICI during the policy period is not covered.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Based on an actuarial valuation, the Corporation, including CICI, has recorded estimated liabilities for IBNR medical malpractice claims, which, along with deductibles on reported claims, aggregated \$3,855,000 and \$4,342,000 as of December 31, 2012 and 2011, respectively, and are included in other noncurrent liabilities in the accompanying consolidated balance sheets. Management believes that these estimated liabilities are adequate to cover actual ultimate expenses, however, the establishment of estimated liabilities for medical malpractice claims is an inherently uncertain process, and there can be no assurance that currently established liabilities will prove adequate. Subsequent actual experience could result in liabilities being too high or too low, which could positively or negatively impact the Corporation's reported consolidated operations in future periods.

(c) Self-Insurance

SCHS is self-insured for medical, dental, and vision benefits provided to its employees for claims up to \$300,000 per employee. SCHS is also self-insured for state unemployment claims. SCHS recognizes self-insurance costs based on claims filed with its third-party administrators and estimates for IBNR claims. Management believes that adequate amounts have been accrued in the accompanying consolidated financial statements to cover any related potential losses.

(d) Risk Management

In the ordinary course of business, the Corporation is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, and natural disasters. However, management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the years ended December 31, 2012 and 2011.

(e) Guaranties

As of December 31, 2012, SCHS is a guarantor of the following loans of certain related entities:

Entity	Loan balances outstanding at December 31, 2012 (unaudited)	SCHS' guaranties	Loan expiration dates
Cascade Medical Buildings, LLC	\$ 22,043,000	11,022,000	April 2021
Heart Center of the Cascades, LLC	9,196,000	4,598,000	December 2015

In the opinion of management, the likelihood that SCHS will be required to make any payments under the guaranties is remote, and the estimated fair value of such guaranties is not significant to the accompanying consolidated financial statements; accordingly, no liability related to these guaranties has been recorded in the accompanying consolidated balance sheets.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(f) Regulations and Litigation

The healthcare industry is subject to various laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has remained high with respect to investigations and allegations concerning possible violations by healthcare providers of regulations, which could result in the expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments of patient services previously billed and collected. Management believes that the Corporation is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations, however, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

In addition, the Corporation becomes involved in litigation and other regulatory investigations arising in the ordinary course of business. After consultation with legal counsel, management believes that these matters will be resolved without causing a material adverse effect on the Corporation's future consolidated financial position or results of operations.

(g) Collective Bargaining Agreements

Approximately 5% of SCHS employees, including nurses and certain professional employees, were covered under collective bargaining agreements at December 31, 2012 that expire in 2013. An additional 23% are covered under contracts expiring beyond 2013.

In February 2011, selected SCHS employees voted to become part of a new collective bargaining unit covering service workers representing approximately 19% of SCHS employees. A collective bargaining agreement was not reached and the covered employees passed a decertification vote in November 2012.

(h) Healthcare Reform

As a result of enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the U.S. healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. This federal healthcare reform legislation does not affect the 2011 or 2012 consolidated financial statements.

(7) Retirement Plan

Substantially all employees of SCHS are eligible to participate in SCHS' defined contribution retirement plan (the Plan). Under the Plan, SCHS matches each participant's contributions up to 6% of his or her salary. Employees are eligible to receive SCHS' matching contributions once they achieve at least 21 years of age, work 1,000 hours or more during the year, and have been continuously employed by SCHS for one year or more. SCHS' expense relating to the Plan during the years ended December 31, 2012 and 2011

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

was \$7,516,000 and \$7,028,000, respectively, and is included in employee benefits in the accompanying consolidated statements of operations

(8) Other Related-Party Transactions

The following is a summary of SCHS' primary unconsolidated related-party investments at December 31, 2012 and 2011

Entity	Basis of accounting	Ownership as of December 31, 2012	Investment balance included in the accompanying consolidated balance sheets		SCHS' share of income (loss) included in the accompanying consolidated statements of operations	
			December 31			
			2012	2011	2012	2011
CMB	Equity method	50%	\$ 680,000	762,000	313,000	175,000
CPH	Equity method	50	162,000	249,000	(87,000)	(85,000)
HCC	Equity method	50	(1,507,000)	(1,412,000)	(65,000)	(370,000)
CS	Equity method	50	662,000	473,000	1,274,000	854,000
COMRI	Equity method	33	565,000	501,000	1,209,000	1,384,000
SOLS	Equity method	28	622,000	540,000	82,000	13,000
CONet	Fair value investment	N/A	—	—	—	—
IOC	Cost method	50	20,000	20,000	—	—
HF	Cost method	14	54,000	54,000	—	—

In addition to SCF, CICI, SCMSO, and CMI, SCHS has investments in the following related entities

(a) Cascade Medical Buildings, LLC (CMB)

CMB is a limited liability company whose two members are SCHS (50% ownership interest) and Deschutes Medical Buildings, LLC (50% ownership interest). CMB was formed to build, own, and manage a medical office building on land leased from SCHS. SCHS rents approximately 9,950 square feet in this building. During the years ended December 31, 2012 and 2011, SCHS received member distributions of \$395,000 and \$137,000, respectively, from CMB. During each of the years ended December 31, 2012 and 2011, SCHS earned rental income from CMB of approximately \$155,000 under the land lease. During the years ended December 31, 2012 and 2011, SCHS incurred rent expense for facilities owned by CMB of \$218,000 and \$216,000, respectively.

(b) Cascade Property Holdings, LLC (CPH)

CPH is a limited liability company whose two members are SCHS (50% ownership interest) and Deschutes Medical Buildings, LLC (50% ownership interest). CPH owns bare land held for investment purposes in Bend, Oregon.

(c) Heart Center of the Cascades, LLC (HCC)

HCC is a limited liability company whose two members are SCHS (50% ownership interest) and CCC Real Properties, LLC (50% ownership interest). HCC was formed to build, own, and manage a medical building on land leased from SCHS. During the years ended December 31, 2012 and 2011, SCHS received member distributions of \$30,000 and \$10,000 from HCC. During the years ended December 31, 2012 and 2011, SCHS earned income from HCC of \$362,000 and \$306,000.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

respectively, under the land lease and from the provision of certain facility services. During the years ended December 31, 2012 and 2011, SCHS incurred rent expense related to a lease with HCC of \$784,000 and \$791,000, respectively.

HCC entered into an interest rate swap agreement in 2007 with Key Bank. The swap agreement was transferred to U S Bank in November 2010. The swap agreement is considered a cash flow hedge and has been deemed ineffective by management. As a result, the changes in fair value in the interest rate swap are included in excess of revenues over expenses. As of December 31, 2012 and 2011, HCC had a liability of \$1,707,000 and \$1,911,000, respectively, related to this swap agreement. SCHS recorded its share of the changes in the fair value of the swap agreement as a component of other, net in the accompanying consolidated statements of operations.

(d) *Cascade Surgicenter, LLC (CS)*

CS is a limited liability company whose two members are SCHS (50% ownership interest) and Deschutes Surgicenter, LLC (50% ownership interest). CS was formed to own, operate, and manage an outpatient surgery center located in facilities owned by CMB. SCHS received member distributions of \$1,085,000 and \$705,000, respectively, from CS during the years ended December 31, 2012 and 2011. During the years ended December 31, 2012 and 2011, CS incurred rent expense for facilities owned by CMB of \$777,000 and \$776,000, respectively.

(e) *Central Oregon Magnetic Resonance Imaging, LLC (COMRI)*

COMRI is a limited liability company, which is owned by SCHS, CORA, and certain physicians. SCHS owns a one-third interest in COMRI. COMRI owns and operates three magnetic resonance imaging machines located in Bend and Redmond, Oregon. During the years ended December 31, 2012 and 2011, SCHS received member distributions of \$1,145,000 and \$1,281,000, respectively, from COMRI. During the years ended December 31, 2012 and 2011, SCHS charged COMRI \$464,000 and \$535,000, respectively, for certain staffing services, rent, and supplies. In addition, during the years ended December 31, 2012 and 2011, SCHS incurred professional fees expense of \$2,629,000 and \$2,442,000, respectively, for services rendered by COMRI. Included in accounts payable in the accompanying consolidated balance sheets are amounts due to COMRI for these services of \$210,000 and \$209,000, as of December 31, 2012 and 2011, respectively.

(f) *Southern Oregon Linen Service (SOLS)*

SOLS is an Oregon cooperative corporation that provides laundry, linen, and uniform services to members of the cooperative. SCHS owns 28% of the outstanding common stock of SOLS, and St Charles Bend, St Charles Redmond and PMH utilize the laundry and linen services provided by this cooperative. SCHS received member distributions of \$0 and \$3,000, respectively, from SOLS during the years ended December 31, 2012 and 2011. SCHS incurred laundry and linen expense with SOLS of \$1,176,000 and \$1,225,000, for the years ended December 31, 2012 and 2011, respectively.

(g) *CONet Inc. (CONet)*

CONet is an Oregon public benefit nonprofit corporation established to facilitate the provision of certain healthcare services to Central and Eastern Oregon residents by combining the resources of certain hospitals in the Central and Eastern Oregon area. SCHS works cooperatively with hospitals in

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

other communities through CONet to provide a smooth continuation of healthcare services. CONet's board of directors consists of the Chief Executive Officer of St. Charles – Bend and the Chief Executive Officer of each of the five other hospitals in the Central and Eastern Oregon area.

(h) *Institute of the Cascades (IOC)*

IOC is a limited liability company whose two members are SCHS (50% ownership interest) and The Neuromusculoskeletal Center of the Cascades PC (NCC) (50% ownership interest). IOC provides administration and marketing to promote CMB, CSC, NCC, and SCHS.

(i) *Health Futures (HF)*

Health Futures LLC (HF) is a limited liability company whose members participate in centralized administrative services in Oregon. SCHS owns approximately 14% of HF. Primarily, SCHS benefits from group purchasing agreements. SCHS receives distributions from time to time that are treated as a reduction to purchases and not a return of capital, as they are the result of group purchasing agreements.

(9) Functional Classification of Expenses

Expenses on a functional basis for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Healthcare services	\$ 389,629,000	370,739,000
General and administrative	94,587,000	87,800,000
	<u>\$ 484,216,000</u>	<u>458,539,000</u>

(10) Fair Value Measurements

The Corporation applies the provisions of FASB ASC Topic 820, *Fair Value Measurement* (ASC 820) for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety

The following table presents assets and liabilities that are measured at fair value on a recurring basis at December 31, 2012

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2012			
Assets				
Assets limited as to use				
Cash and cash equivalents	\$ 8,429,000	8,429,000	—	—
Equity mutual funds				
Medium cap blend	6,882,000	6,882,000	—	—
Small cap blend	6,969,000	6,969,000	—	—
Large cap growth	15,889,000	15,889,000	—	—
Large cap balanced	45,966,000	45,966,000	—	—
Large cap value	15,843,000	15,843,000	—	—
Large cap blend	14,000	14,000	—	—
International growth	13,459,000	13,459,000	—	—
International value	13,621,000	13,621,000	—	—
International large cap	47,000	47,000	—	—
International balance	27,570,000	27,570,000	—	—
Market neutral	11,508,000	11,508,000	—	—
REIT sector	23,902,000	23,902,000	—	—
Money market	16,000	16,000	—	—
Fixed-income mutual funds				
Treasury intermediate	35,828,000	35,828,000	—	—
Inv grade corp interm	12,278,000	12,278,000	—	—
Inv grade corp short	11,736,000	11,736,000	—	—
High-yield bond	58,000	58,000	—	—
Corporate obligations	10,403,000	—	10,403,000	—
U S government agencies	1,970,000	—	1,970,000	—
U S government treasuries	1,968,000	1,968,000	—	—
Cash surrender value of life insurance	248,000	—	248,000	—
	<u>\$ 264,604,000</u>	<u>251,983,000</u>	<u>12,621,000</u>	<u>—</u>

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The following table presents assets and liabilities that are measured at fair value on a recurring basis at December 31, 2011

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2011			
Assets				
Assets limited as to use				
Cash and cash equivalents	\$ 9,257,000	9,257,000	—	—
Equity mutual funds				
Medium cap blend	5,584,000	5,584,000	—	—
Small cap blend	5,526,000	5,526,000	—	—
Small cap value	35,000	35,000	—	—
Large cap growth	12,524,000	12,524,000	—	—
Large cap balanced	36,612,000	36,612,000	—	—
Large cap value	13,151,000	13,151,000	—	—
International growth	6,310,000	6,310,000	—	—
International value	6,203,000	6,203,000	—	—
International large cap	40,000	40,000	—	—
International balance	12,415,000	12,415,000	—	—
REIT sector	18,683,000	18,683,000	—	—
Money market	1,393,000	1,393,000	—	—
Fixed-income mutual funds				
Treasury intermediate	19,668,000	19,668,000	—	—
Inv grade corp interm	9,621,000	9,621,000	—	—
Inv grade corp short	37,090,000	37,090,000	—	—
High-yield bond	54,000	54,000	—	—
Intermediate bond	287,000	287,000	—	—
Corporate obligations	10,767,000	—	10,767,000	—
U S government agencies	2,229,000	—	2,229,000	—
U S government treasuries	1,792,000	1,792,000	—	—
Cash surrender value of life insurance	229,000	—	229,000	—
Accrued interest receivable	4,000	—	4,000	—
	<u>\$ 209,474,000</u>	<u>196,245,000</u>	<u>13,229,000</u>	<u>—</u>

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The fair value of long-term obligations is estimated using current market activity and discounted cash flow analysis and is considered a Level 2 measurement under ASC 820. The fair value and carrying amount of long-term obligations at December 31, 2012 and 2011 were as follows:

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term obligations	\$ 166,430,000	197,752,000	174,638,000	199,406,000

(11) Discontinued Operations

Effective June 1, 2012, SCHS closed its emergency air ambulance transportation business "Airlink." The closure included ceasing all air ambulance operations, transferring all Airlink membership program activities to a new provider and selling the aircraft used to provide the air ambulance transportation services. Airlink had distinct and identifiable assets, liabilities and cash flows and was considered a component of SCHS. As a result, the closure of Airlink is reported as discontinued operations in these consolidated financial statements. The following table provides summary financial information for Airlink for the years ended December 31, 2012 and 2011:

	2012	2011
Operating revenues	\$ 2,915,000	8,953,000
Operating expenses	4,109,000	8,451,000
Operating (loss) income	(1,194,000)	502,000
Gain on sale of assets	3,693,000	—
Gain on discontinued operations	\$ 2,499,000	502,000

(12) Subsequent Events

The Corporation has performed an evaluation of subsequent events through March 26, 2013, which is the date these consolidated financial statements were issued.

Effective January 1, 2013, SCHS assumed the operations and substantially all of the assets of Mountain View Hospital District (MVHD), located in Madras, Oregon, in exchange for assumption of substantially all of MVHD's liabilities and payment of certain outstanding MVHD debt obligations. The facility was renamed St. Charles Madras and SCHS intends to continue to offer substantially the same healthcare services to the community of Madras and the surrounding Jefferson County area.

SUPPLEMENTARY SCHEDULES

ST. CHARLES HEALTH SYSTEM, INC.
Supplementary Schedule – Balance Sheet Information
December 31, 2012 and 2011

Assets	Obligated group	Nonobligated group excluding St. Charles Foundation, Inc.	St. Charles Foundation, Inc.	Eliminating and reclassifying entries	2012	2011
Current assets						
Cash and cash equivalents	\$ 25,303,000	540,000	1,174,000	—	27,017,000	18,477,000
Assets limited as to use, current portion	7,671,000	—	—	—	7,671,000	8,033,000
Patient accounts receivable, net of allowance	60,122,000	1,868,000	—	—	61,990,000	76,772,000
Other receivables, net	9,245,000	9,000	587,000	(135,000)	9,706,000	6,922,000
Supplies inventory	8,935,000	—	—	—	8,935,000	9,365,000
Prepaid expenses and other current assets	7,104,000	116,000	5,000	—	7,225,000	6,564,000
Total current assets	118,380,000	2,533,000	1,766,000	(135,000)	122,544,000	126,133,000
Assets limited as to use, net of current portion	251,225,000	721,000	7,152,000	—	259,098,000	203,501,000
Property and equipment, net	206,353,000	4,710,000	—	—	211,063,000	223,057,000
Other assets, net	20,858,000	6,842,000	—	(14,649,000)	13,051,000	11,138,000
Total assets	\$ 596,816,000	14,806,000	8,918,000	(14,784,000)	605,756,000	563,829,000
Liabilities and Net Assets						
Current liabilities						
Accounts payable	\$ 18,486,000	662,000	—	(125,000)	19,023,000	21,730,000
Accrued liabilities	35,573,000	6,000	—	—	35,579,000	31,798,000
Estimated third-party payor settlements, net	5,058,000	—	—	—	5,058,000	3,549,000
Deferred revenue	359,000	—	—	(10,000)	349,000	1,068,000
Current portion of long-term obligations	8,971,000	736,000	—	—	9,707,000	9,298,000
Total current liabilities	68,447,000	1,404,000	—	(135,000)	69,716,000	67,443,000
Long-term obligations, net of current portion	155,429,000	1,294,000	—	—	156,723,000	165,340,000
Other liabilities	3,855,000	—	74,000	—	3,929,000	4,699,000
Total liabilities	227,731,000	2,698,000	74,000	(135,000)	230,368,000	237,482,000
Net assets						
Unrestricted, SCHS	364,070,000	12,108,000	2,111,000	(10,875,000)	367,414,000	318,617,000
Unrestricted, noncontrolling interests	—	—	—	2,959,000	2,959,000	2,693,000
Temporarily restricted	3,581,000	—	3,896,000	(3,896,000)	3,581,000	3,662,000
Permanently restricted	1,434,000	—	2,837,000	(2,837,000)	1,434,000	1,375,000
Total net assets	369,085,000	12,108,000	8,844,000	(14,649,000)	375,388,000	326,347,000
Total liabilities and net assets	\$ 596,816,000	14,806,000	8,918,000	(14,784,000)	605,756,000	563,829,000

See accompanying independent auditors' report

ST. CHARLES HEALTH SYSTEM, INC.
Supplementary Schedule – Statement of Operations Information
Years ended December 31, 2012 and 2011
(Dollars in thousands)

	Obligated group	Nonobligated group excluding St. Charles Foundation, Inc.	St. Charles Foundation, Inc.	Eliminating and reclassifying entries	2012	2011
Operating revenue						
Net patient service revenue prior to bad debt adjustments	\$ 494,830,000	22,674,000	—	(12,518,000)	504,986,000	476,144,000
Bad debt adjustments	24,216,000	—	—	—	24,216,000	26,522,000
Net patient service revenue	470,614,000	22,674,000	—	(12,518,000)	480,770,000	449,622,000
Other revenue	25,934,000	—	1,441,000	(3,008,000)	24,367,000	17,271,000
Total operating revenue	496,548,000	22,674,000	1,441,000	(15,526,000)	505,137,000	466,893,000
Expenses						
Salaries and wages	193,907,000	5,092,000	388,000	(388,000)	198,999,000	185,588,000
Employee benefits	65,034,000	—	142,000	(142,000)	65,034,000	59,496,000
Professional fees	48,723,000	—	27,000	(12,545,000)	36,205,000	39,294,000
Depreciation	29,855,000	1,320,000	—	—	31,175,000	30,816,000
Interest	12,907,000	113,000	—	—	13,020,000	13,114,000
Medical supplies, drugs, and other	134,654,000	6,915,000	481,000	(2,267,000)	139,783,000	130,231,000
Total expenses	485,080,000	13,440,000	1,038,000	(15,342,000)	484,216,000	458,539,000
Operating income	11,468,000	9,234,000	403,000	(184,000)	20,921,000	8,354,000
Other income (losses)						
Investment income, net	27,006,000	—	272,000	143,000	27,421,000	2,042,000
Other, net	376,000	(269,000)	—	—	107,000	(200,000)
Total other income, net	27,382,000	(269,000)	272,000	143,000	27,528,000	1,842,000
Excess of revenue over expenses	38,850,000	8,965,000	675,000	(41,000)	48,449,000	10,196,000
Increase (decrease) in interest in net assets of St. Charles Foundation, Inc.	648,000	—	—	(648,000)	—	—
Gain on discontinued operations	2,499,000	—	—	—	2,499,000	502,000
Net assets released from restriction for use	516,000	—	—	—	516,000	183,000
Capital contributions	43,000	—	—	—	43,000	—
Transfers (to) from affiliated organizations	(20,000)	—	(21,000)	21,000	(20,000)	(34,000)
Distributions	5,655,000	(8,079,000)	—	—	(2,424,000)	(2,038,000)
Change in unrestricted net assets	\$ 48,191,000	886,000	654,000	(668,000)	49,063,000	8,809,000

See accompanying independent auditors' report



ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Financial Statements
and Supplementary Schedules

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

ST. CHARLES HEALTH SYSTEM, INC.

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Supplementary Schedules	
I Balance Sheet Information	30
II Statement of Operations Information	31



KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Directors
St Charles Health System, Inc

We have audited the accompanying consolidated financial statements of St Charles Health System, Inc., which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St Charles Health System, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in schedules I and II is presented for purposes of additional analysis and is 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Portland, Oregon
March 26, 2013

ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Balance Sheets

December 31, 2012 and 2011

Assets	2012	2011
Current assets		
Cash and cash equivalents	\$ 27,017,000	18,477,000
Assets limited as to use, current portion	7,671,000	8,033,000
Patient accounts receivable, net of reserves for uncollectible accounts of \$16,492,000 and \$13,785,000 at December 31, 2012 and 2011, respectively	61,990,000	76,772,000
Other receivables, net	9,706,000	6,922,000
Supplies inventory	8,935,000	9,365,000
Prepaid expenses and other current assets	7,225,000	6,564,000
Total current assets	122,544,000	126,133,000
Assets limited as to use, net of current portion	259,098,000	203,501,000
Property and equipment, net	211,063,000	223,057,000
Other assets, net	13,051,000	11,138,000
Total assets	\$ 605,756,000	563,829,000
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 19,023,000	21,730,000
Accrued liabilities	35,579,000	31,798,000
Estimated third-party payor settlements payable, net	5,058,000	3,549,000
Deferred revenue	349,000	1,068,000
Current portion of long-term obligations	9,707,000	9,298,000
Total current liabilities	69,716,000	67,443,000
Long-term obligations, net of current portion	156,723,000	165,340,000
Other liabilities	3,929,000	4,699,000
Total liabilities	230,368,000	237,482,000
Net assets		
Unrestricted, SCHS	367,414,000	318,617,000
Unrestricted, noncontrolling interests	2,959,000	2,693,000
Temporarily restricted	3,581,000	3,662,000
Permanently restricted	1,434,000	1,375,000
Total net assets	375,388,000	326,347,000
Total liabilities and net assets	\$ 605,756,000	563,829,000

See accompanying notes to consolidated financial statements

ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Statements of Operations

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenue		
Net patient service revenue prior to provision for bad debts	\$ 504,986,000	476,144,000
Provision for bad debts	<u>24,216,000</u>	<u>26,522,000</u>
Net patient service revenue	480,770,000	449,622,000
Other revenue	<u>24,367,000</u>	<u>17,271,000</u>
Total operating revenue	<u>505,137,000</u>	<u>466,893,000</u>
Expenses		
Salaries and wages	198,999,000	185,588,000
Employee benefits	65,034,000	59,496,000
Professional fees	36,205,000	39,294,000
Depreciation	31,175,000	30,816,000
Interest	13,020,000	13,114,000
Medical supplies, drugs, and other	<u>139,783,000</u>	<u>130,231,000</u>
Total expenses	<u>484,216,000</u>	<u>458,539,000</u>
Excess of revenues over expenses from operations	<u>20,921,000</u>	<u>8,354,000</u>
Other income (losses)		
Investment income, net	27,421,000	2,042,000
Other, net	<u>107,000</u>	<u>(200,000)</u>
Total other income, net	<u>27,528,000</u>	<u>1,842,000</u>
Excess of revenue over expenses	48,449,000	10,196,000
Gain on discontinued operations	2,499,000	502,000
Net assets released from restriction for capital	516,000	183,000
Capital contributions	43,000	—
Other transfers	(20,000)	(34,000)
Distributions	<u>(2,424,000)</u>	<u>(2,038,000)</u>
Increase in unrestricted net assets	<u>\$ 49,063,000</u>	<u>8,809,000</u>

See accompanying notes to consolidated financial statements

ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2012 and 2011

	Unrestricted – SCHS	Unrestricted noncontrolling interests	Temporarily restricted	Permanently restricted	Total
Net assets at December 31, 2010	\$ 309,951,000	2,550,000	3,590,000	1,414,000	317,505,000
Excess of revenue over expenses	8,015,000	2,181,000	—	—	10,196,000
Gain on discontinued operations	502,000	—	—	—	502,000
Restricted contributions	—	—	1,176,000	—	1,176,000
Net assets released from restriction	183,000	—	(1,073,000)	—	(890,000)
Other transfers	(34,000)	—	30,000	4,000	—
Distributions	—	(2,038,000)	(42,000)	—	(2,080,000)
Other changes in net assets	—	—	(19,000)	(43,000)	(62,000)
Change in net assets	8,666,000	143,000	72,000	(39,000)	8,842,000
Net assets at December 31, 2011	318,617,000	2,693,000	3,662,000	1,375,000	326,347,000
Excess of revenue over expenses	45,759,000	2,690,000	—	—	48,449,000
Gain on discontinued operations	2,499,000	—	—	—	2,499,000
Restricted contributions	—	—	1,760,000	—	1,760,000
Net assets released from restriction	516,000	—	(1,978,000)	—	(1,462,000)
Other transfers	(20,000)	—	2,000	18,000	—
Distributions	—	(2,424,000)	—	—	(2,424,000)
Other changes in net assets	43,000	—	135,000	41,000	219,000
Change in net assets	48,797,000	266,000	(81,000)	59,000	49,041,000
Net assets at December 31, 2012	\$ 367,414,000	2,959,000	3,581,000	1,434,000	375,388,000

See accompanying notes to consolidated financial statements

ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Increase in net assets	\$ 49,041,000	8,842,000
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	31,524,000	31,497,000
Net unrealized (gain) loss on investments	(20,440,000)	9,391,000
Gain on sale of property and equipment	(3,384,000)	(26,000)
Accretion of debt obligation	313,000	323,000
Restricted contributions	(1,760,000)	(1,176,000)
Distributions to noncontrolling owners	2,424,000	2,038,000
Changes in certain operating assets and liabilities		
Patient accounts receivable	14,782,000	(6,497,000)
Other receivables, net	(2,784,000)	(3,829,000)
Supplies inventory	430,000	(4,258,000)
Other assets, net	(2,325,000)	(2,529,000)
Accounts payable	(2,154,000)	1,236,000
Accrued liabilities	3,781,000	(391,000)
Estimated third-party payor settlements payable, net	1,509,000	2,252,000
Deferred revenue	(719,000)	(64,000)
Other liabilities	(770,000)	1,773,000
Net cash provided by operating activities	<u>69,468,000</u>	<u>38,582,000</u>
Cash flows from investing activities		
Purchases of investments	(90,992,000)	(46,020,000)
Proceeds from sale of investments	56,197,000	25,412,000
Distributions from joint ventures	2,655,000	2,136,000
Proceeds from sale of property and equipment	3,064,000	134,000
Purchases of property and equipment	<u>(21,706,000)</u>	<u>(13,242,000)</u>
Net cash used in investing activities	<u>(50,782,000)</u>	<u>(31,580,000)</u>
Cash flows from financing activities		
Payments on long-term obligations	(9,482,000)	(9,965,000)
Proceeds from restricted contributions	1,760,000	1,176,000
Distributions to noncontrolling owners	<u>(2,424,000)</u>	<u>(2,038,000)</u>
Net cash used in financing activities	<u>(10,146,000)</u>	<u>(10,827,000)</u>
Net increase (decrease) in cash and cash equivalents	8,540,000	(3,825,000)
Cash and cash equivalents at beginning of year	<u>18,477,000</u>	<u>22,302,000</u>
Cash and cash equivalents at end of year	\$ <u>27,017,000</u>	<u>18,477,000</u>
Supplemental disclosures		
Cash paid for interest	\$ 13,108,000	12,915,000
Change in property and equipment in accounts payable	(553,000)	2,016,000
Increase in notes receivable upon disposition of property and equipment	2,904,000	—

See accompanying notes to consolidated financial statements

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(1) Business, Organization, and Summary of Significant Accounting Policies

(a) *Business and Organization*

St. Charles Health System, Inc. (SCHS or the Corporation) is an Oregon nonprofit corporation that operates a healthcare delivery system, which includes three hospitals in Central Oregon: St. Charles Medical Center Bend (St. Charles Bend), St. Charles Medical Center Redmond (St. Charles Redmond), and Pioneer Memorial Hospital in Prineville (PMH), as well as several other lines of healthcare-related businesses. SCHS also manages one other hospital, Mountain View Hospital District (MVHD), located within its primary service area in Madras. These management services include strategic support, management personnel, and information technology support. Effective January 1, 2013, SCHS purchased substantially all of the assets and operations of MVHD and assumed substantially all of their liabilities, as discussed in note 12. SCHS provides healthcare and healthcare-related services primarily to residents in Central, Southeastern, and Eastern Oregon. In addition, SCHS is the sole member of Cascadia Insurance Company, Inc. (CICI), a captive insurance company domiciled in Hawaii, established for the purpose of providing malpractice insurance coverage for SCHS. SCHS is also the sole member of St. Charles Management Services Organization LLC (SCMSO), a limited liability company that provides billing services to physicians and medical clinics. These healthcare businesses and subsidiaries, along with the Corporation's home office, form the obligated group. The assets of any one are available for the satisfaction of debts of the others within the obligated group (subject to certain contractual limitations).

The St. Charles Foundation, Inc. (SCF), an Oregon nonprofit corporation, was established to engage in and conduct charitable, educational, and scientific activities and to raise funds in support of SCHS. The Corporation is the sole member of SCF, and SCF is included in the consolidated financial statements of SCHS but is not a member of the obligated group. The net assets of SCF are reported as unrestricted, temporarily restricted or permanently restricted, according to donor or legal restrictions, in the accompanying consolidated financial statements.

SCHS also has a controlling interest in Cascade Medical Imaging, LLC (CMI). CMI is a limited liability corporation whose two members are SCHS (70% ownership interest) and Central Oregon Radiology Associates, P.C. (CORA) (30% ownership interest). CMI provides positron emission tomography (PET) scanning, computer-assisted tomography (CT) scanning, nuclear medicine, mammography, and picture archiving and communications system (PACS) services in Central, Southeastern, and Eastern Oregon. CMI has been consolidated into the financial statements of SCHS but is not part of the obligated group.

(b) *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts and transactions of SCHS, CICI, SCMSO, SCF, and CMI. All material intercompany accounts and transactions have been eliminated in consolidation.

(c) *Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue, income, gains, expenses, and losses during the reporting period. Actual results could differ from those estimates. The significant estimates in the Corporation's consolidated financial statements include accounts receivable allowances, third-party payor settlement liabilities, valuation of investments, and liabilities related to self-insurance programs.

(d) *Cash and Cash Equivalents*

Cash and cash equivalents consist of petty cash and cash in demand bank accounts. Amounts held in demand bank accounts are often in excess of Federal Deposit Insurance Corporation (FDIC) coverage levels.

(e) *Assets Limited as to Use*

Assets limited as to use primarily consist of assets internally designated for future capital acquisitions and operating purposes (over which SCHS retains control and may, at its discretion, subsequently use for other purposes), assets held by a trustee under bond indenture agreements and temporarily and permanently restricted funds held by SCF. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices in the accompanying consolidated financial statements.

The investment in the Oregon Community Foundation (OCF) represents a beneficial interest in a recipient organization. SCHS established an interest in OCF by contributing funds to its investment portfolio. The value of this interest is then adjusted at a rate proportional to its investment returns obtained by OCF on their investment portfolio. SCHS recognizes their interest in the net assets of OCF and adjusts that interest for its share of the change in the value of the investment portfolio using a method that is similar to the equity method of accounting for investments in common stock.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values of this investment. Furthermore, while SCHS believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investment income or loss (including interest, dividends, realized gains and losses, and unrealized gains and losses) is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law.

Trading securities are debt and equity securities that are bought and held principally for the purpose of selling them in the near term. The Corporation classifies all of its investments in internally designated assets as trading securities, based on the nature of trading activity in its portfolio by the Corporation's investment manager.

As of December 31, 2012 and 2011, the Corporation had investments in equity and fixed-income mutual funds, corporate obligations, US government agency and treasury securities, commercial paper, and an interest in the OCF. Management believes that the Corporation's credit risk with respect to these investments is minimal due to the diversity of the individual investments and the

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

financial strength of the entities, which have issued the securities or instruments. However, due to changes in economic conditions, interest rates, and common stock prices, the fair value of the Corporation's investments can be volatile. Consequently, the fair value of the Corporation's investments can significantly change in the near term as a result of such volatility.

(f) *Patient Accounts Receivable, Allowance for Doubtful Accounts, and Other Receivables*

The collection of receivables from third-party payors and patients is SCHS' primary source of cash and is critical to its operating performance. When SCHS provides care to patients, it does not require collateral, however, it maintains an estimated allowance for doubtful accounts. Additionally, SCHS adjusts accounts receivable balances to estimated collectible balances based on the terms of contracts in place with third-party payors. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (generally deductibles and copayments) remain outstanding. The allowance for doubtful accounts is estimated based upon SCHS' historical collection experience, the age of the patient's account, management's estimate of the patient's economic ability to pay, and the effectiveness of collection efforts. Patient accounts receivable balances are routinely reviewed in conjunction with historical collection rates and other economic conditions that might ultimately affect the collectibility of patient accounts when considering the adequacy of the amounts recorded in the allowance for doubtful accounts. Actual write-offs have historically been within management's expectations. Significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage could affect SCHS' collection of patient accounts receivable, cash flows, and results of operations.

SCHS' write-offs of accounts receivable for which patients have financial responsibility were \$19,041,000 and \$23,451,000 in fiscal 2012 and 2011, respectively. As a result of the decrease in write-offs and estimated uncollectible amounts, total bad debt expense, which is a reduction in deriving net patient service revenue, for the years ended December 31, 2012 and 2011 was \$24,216,000 and \$26,522,000, respectively. The Corporation also maintains an allowance for doubtful accounts for third-party payors, which has been determined based on historical bad debt expense on those account types.

Significant concentrations of gross patient accounts receivable as of December 31, 2012 and 2011 were approximately as follows:

	2012	2011
Medicare and Medicare managed care contracts	26%	28%
Medicaid and Oregon Health Plan (OHP)	13	14
Commercial and managed care insurance	35	33
Self-pay	26	25
	100%	100%

(g) *Supplies Inventory*

Supplies inventory is recorded at the lower of cost (first-in, first-out method) or market.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The consolidated financial statements for the year ended December 31, 2011 include a correction in SCHS' accounting for certain components of their inventory. Previously, certain supplies were expensed when purchased. Management has determined that these supplies should be reflected more appropriately as an asset prior to their consumption in the provision of healthcare services. To adjust for the change at December 31, 2011, supplies inventory was increased by \$3,429,000 resulting in a reduction to the related medical supplies expense balance in the consolidated statement of operations for the year ended December 31, 2011 in the same amount.

(h) Property and Equipment

Property and equipment acquisitions are recorded at cost. Donated property and equipment items are recorded on the basis of estimated fair value at the date of donation. Improvements and replacements of property and equipment are capitalized. Maintenance and repairs are charged to expense as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Assets under capital lease obligations are amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included in depreciation expense in the accompanying consolidated financial statements. Net interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Estimated useful lives are as follows:

Land improvements	5 – 25 years
Buildings and fixed equipment	5 – 40 years
Furniture and moveable equipment	3 – 20 years

Management reviews property and equipment for possible impairment whenever events or circumstances indicate the carrying amount of such assets may not be recoverable. If there is an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value.

Contributions of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions as support when the donated or acquired long-lived assets are placed in service.

(i) Contributions and Grants

Unrestricted donations and grants are recorded as other operating revenue. Donor-restricted contributions and grants are recorded as additions to the appropriate class of net assets. When capital expenditures are made consistent with the purpose intended by the donor, a transfer is made from temporarily restricted net assets to unrestricted net assets. If restricted amounts are expended for

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

operations, the amounts are recorded as other revenues in the accompanying consolidated statements of operations

(j) Other Assets

Other assets include SCHS' investments in various related entities, which are not consolidated. SCHS consolidates such investees if it owns a majority of the investee's stock, is the sole member of the investee, or controls a majority voting interest in the investee's board of directors and has an economic interest in such investee. If SCHS owns 50% or less of the voting stock of an investee and can exercise significant influence over the investee's operating and financial policies (generally presumed to be when SCHS owns more than 20% of the voting stock of the investee), SCHS accounts for such investments under the equity method of accounting, whereby SCHS records its proportionate share of the investee's income or loss in the consolidated statements of operations and records distributions received from the investee as a reduction in the related investment balance. If SCHS cannot exercise significant influence over the investee's operating and financial policies (generally presumed to be when SCHS owns less than 20% of the voting stock of the investee), SCHS accounts for such investments at cost and records dividends or distributions from the investee as other income when received.

(k) Unamortized Bond Discount

Unamortized bond discount, a component of long-term obligations, is amortized to interest expense over the term of the related bonds using the effective-interest method.

(l) Net Patient Service Revenue

SCHS has agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, outpatient case rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts due and determined to be collectible from patients, third-party payors, and others for services rendered and includes estimates for potential retroactive revenue adjustments under reimbursement agreements with third-party payors. Such estimates are adjusted in future periods as final settlements are determined.

A significant portion of SCHS' services are provided to Medicare, Medicaid, and Oregon Health Plan (OHP) patients under contractual arrangements. Inpatient acute care services rendered by SCHS to Medicare, Medicaid, and OHP program beneficiaries are generally reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors (i.e., Medicare severity-diagnosis related groups or MS-DRGs). Such payments include a capital cost component and may be greater or less than the actual charges for services. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. Home health services related to Medicare beneficiaries are reimbursed under a prospective payment system methodology. OHP outpatient services are reimbursed based on a percentage of charges. SCHS is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after audits of SCHS' annual cost reports by the Medicare fiscal intermediary and Medicaid. St. Charles Bend's cost reports have been audited and final settled by the Medicare fiscal intermediary and Medicaid through

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

December 31, 2008 and December 31, 2006, respectively. St. Charles Redmond's cost reports have been audited and final settled by the Medicare fiscal intermediary and Medicaid through December 31, 2009 and December 31, 2008, respectively.

PMH is a "critical access hospital" (CAH) for Medicare and Medicaid program purposes. As a CAH, PMH cannot operate more than 25 beds, and PMH's average length of stay for acute care patients cannot exceed 96 hours. As a CAH, PMH is reimbursed for Medicare and Medicaid inpatient and outpatient services under a cost-reimbursement methodology. PMH's cost reports have been audited and final settled by the Medicare fiscal intermediary and Medicaid through December 31, 2010 and December 31, 2009, respectively.

The laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that estimated third-party payor settlements payable, net, will change by a material amount in the near term. Net patient service revenue was increased by approximately \$4,243,000 and \$1,128,000 for the years ended December 31, 2012 and 2011, respectively, as a result of final settlements of prior years cost reports and revisions of estimates for prior years cost report settlements.

SCHS has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations to provide medical services to subscribing participants. The basis for payment to SCHS under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined fee schedules, and certain capitated per member per month payment arrangements.

(m) Charity Care

SCHS provides services without charge, or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. SCHS' criteria for the determination of charity care include the patient's – or other responsible party's – annual household income, number of people in the home and claimed on taxes, assets, credit history, existing medical debt obligations, and other indicators of the patient's ability to pay. Generally, those individuals with an annual household income at or less than 100% of the Federal Poverty Guidelines (the Guidelines) qualify for charity care under SCHS' policy. In addition, SCHS provides discounts on a sliding scale to those individuals with an annual household income of between 100% and 300% of the Guidelines. Since SCHS does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported as net patient service revenue. The cost of the services and supplies furnished under the charity care policy for the years ended December 31, 2012 and 2011 was approximately \$16,634,000 and \$11,236,000, respectively. The Corporation uses a ratio of cost to charges based on the direct and indirect costs and gross charges of SCHS to estimate the cost of providing this charity care. The cost to charge ratio is developed separately for each facility by using SCHS' cost accounting system in conjunction with other analysis tools. The weighted average cost to charge ratio used in this determination was 46.0% and 39.7% for the years ended December 31, 2012 and 2011, respectively. The amount of subsidies received by SCHS for providing charity care for the years ended December 31, 2012 and 2011 was approximately \$1,143,000 and \$1,096,000, respectively.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(n) Consolidated Statements of Operations

For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenue and expenses. SCHS' income from investments in healthcare-related joint ventures recorded on the equity method of accounting is reported as other operating revenue. Peripheral or incidental transactions are reported as other income (losses).

The performance indicator for the accompanying consolidated statements of operations is excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from the excess of revenue over expenses, consistent with industry practice, include the change in net assets released from restrictions used for purchases of property and equipment, contributions for property and equipment, distributions to noncontrolling interest, discontinued operations of Airlink, refer to note 11, and net asset transfers.

(o) State of Oregon Provider Tax

Effective July 1, 2004, the State of Oregon instituted a provider tax on certain qualifying hospitals. SCHS recorded provider taxes of approximately \$15,708,000 and \$11,922,000 for the years ended December 31, 2012 and 2011, respectively, which are included in medical supplies, drugs, and other expense in the accompanying consolidated statements of operations. The increase in the 2012 tax is attributed primarily to increased gross charges and provider tax rate changes instituted in July 2011 and January 2012 by the State of Oregon. In addition, SCHS has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments owed to SCHS related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to SCHS. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to qualifying hospitals on a quarterly basis. SCHS estimates the amount of receipts via the quarterly redistribution process from OAHHS for the years ended December 31, 2012 and 2011 will match the annual amounts of taxes paid, which is reflected as a component of net patient service revenue in the accompanying consolidated statements of operations.

(p) Income Taxes

The Corporation has received a determination letter from the Internal Revenue Service (IRS) stating that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code except for tax on unrelated business income. It is management's belief that none of its activities have produced material unrelated business income, and that SCHS continues to be operated in a manner that qualifies it for tax-exempt status.

Accounting principles generally accepted in the United States of America require SCHS' management to evaluate tax positions taken by the Corporation and recognize a tax liability (or asset) if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by the Corporation and has concluded that as of December 31, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The Corporation is subject to routine audits by taxing jurisdictions, however, there are currently no audits for any tax periods in progress. The Corporation's management believes it is no longer subject to income tax examinations for years prior to 2009.

(q) *Reclassifications*

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(2) **Assets Limited as to Use**

The composition of assets limited as to use as of December 31, 2012 and 2011 is set forth in the following table. Investments are carried at fair value.

	<u>2012</u>	<u>2011</u>
Internally designated for capital acquisitions		
Cash and cash equivalents	\$ —	12,000
Equity mutual funds	179,111,000	116,663,000
Fixed-income mutual funds	57,773,000	65,918,000
International bonds	—	7,000
Corporate obligations	—	163,000
U.S. government agency and treasury securities	—	181,000
Accrued interest receivable	—	4,000
	<u>236,884,000</u>	<u>182,948,000</u>
Internally designated for operating purposes		
Cash and cash equivalents	727,000	504,000
Equity mutual funds	385,000	426,000
Fixed-income mutual funds	307,000	434,000
Corporate obligations	271,000	267,000
U.S. government agency and treasury securities	3,938,000	3,840,000
Cash surrender value of life insurance	248,000	229,000
	<u>5,876,000</u>	<u>5,700,000</u>
Total internally designated	<u>242,760,000</u>	<u>188,648,000</u>
Held by trustee		
Cash and cash equivalents	7,671,000	8,033,000
Corporate obligations	10,132,000	10,329,000
Total held by trustee	<u>17,803,000</u>	<u>18,362,000</u>

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Board designated endowment		
Investment in Oregon Community Foundation	\$ 1,448,000	1,377,000
Donor restricted – temporarily		
Cash and cash equivalents	16,000	698,000
Equity mutual funds	1,827,000	1,053,000
Fixed-income mutual funds	1,465,000	20,000
Donor restricted – permanently		
Investment in Oregon Community Foundation	717,000	683,000
Cash and cash equivalents	15,000	11,000
Equity mutual funds	363,000	341,000
Fixed-income mutual funds	355,000	341,000
Total assets limited as to use	<u>266,769,000</u>	<u>211,534,000</u>
Less portion reported as current	<u>(7,671,000)</u>	<u>(8,033,000)</u>
Total assets limited as to use, net of current portion	<u>\$ 259,098,000</u>	<u>203,501,000</u>

Investment income, net, consisted of the following for the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 6,874,000	5,278,000
Realized gains on sales of securities, net	107,000	6,155,000
Unrealized gains (losses) on trading securities, net	<u>20,440,000</u>	<u>(9,391,000)</u>
Investment income, net	<u>\$ 27,421,000</u>	<u>2,042,000</u>

SCHS maintains investments with OCF. The investments are used solely to support the endowments of SCHS, and are recorded as a beneficial interest by SCHS, in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-20, *Not-for-Profit Entities – Financially Interrelated Entities*, regarding financially interrelated not-for-profit entities. The investments, which represent an endowment fund that is legally owned by the OCF, primarily include equity securities and fixed-income investments. SCHS' investment in the OCF is recorded based on their initial contribution to the OCF, adjusted for subsequent changes. All earnings of the investments held by the OCF, less investment management fees charged by the OCF, are allocated by OCF, and are recorded by SCHS as investment earnings in the consolidated statements of operations, within the appropriate category of net assets based on related donor restrictions. Earnings consist of interest, dividends, realized gains and losses, and changes in unrealized gains and losses. Funds held by OCF may be distributed once per quarter, subject to approval by the OCF board of directors.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(3) Property and Equipment

Property and equipment consisted of the following at December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Land and improvements	\$ 15,894,000	15,902,000
Buildings and fixed equipment	247,023,000	240,163,000
Furniture and movable equipment	181,228,000	197,292,000
	<u>444,145,000</u>	<u>453,357,000</u>
Less accumulated depreciation	<u>(240,172,000)</u>	<u>(235,960,000)</u>
	203,973,000	217,397,000
Construction in progress	<u>7,090,000</u>	<u>5,660,000</u>
Property and equipment, net	<u>\$ 211,063,000</u>	<u>223,057,000</u>

Construction in progress includes costs incurred in connection with various construction projects and costs incurred related to the acquisition and implementation of various software applications. As of December 31, 2012, management estimates that the remaining cost to complete the construction projects is approximately \$2,122,000, and the remaining cost to complete the software acquisitions and implementations is approximately \$4,625,000.

(4) Restricted Net Assets

Restricted net assets are held by SCF and are those whose use has been limited by donor-imposed restrictions to a specific time period and/or purpose. SCF also holds funds that are not donor restricted for a specific purpose and are distributed to SCHS in amounts and in periods determined by SCF's board of directors. SCF's temporarily restricted net assets are distributed to SCHS or other recipients for the purposes specified by the donors. SCF's permanently restricted net assets consist of the principal amount of contributions accepted by SCF with the stipulation from donors that the principal be maintained in perpetuity and only the income from investments thereof be expended to support SCF's general activities or restricted purposes, as stipulated by the respective donors.

During 2012 and 2011, net assets were released from donor restrictions by SCHS incurring operating expenses satisfying the restricted purpose of approximately \$1,462,000 and \$890,000, respectively, and are included in other revenue. Further, approximately \$516,000 and \$183,000 were released from restriction to SCHS for capital expenditures made during 2012 and 2011, respectively.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Temporarily and permanently restricted net assets are available for the following purposes at December 31, 2012 and 2011

	2012	2011
Temporarily restricted		
Education and research	\$ 796,000	1,081,000
Indigent care	150,000	79,000
Patient care operating activities	1,531,000	1,804,000
Purchase of property and equipment	1,104,000	698,000
Net assets, temporarily restricted	<u>\$ 3,581,000</u>	<u>3,662,000</u>
Permanently restricted		
Education and research	\$ 447,000	438,000
Indigent care	987,000	937,000
Net assets, permanently restricted	<u>\$ 1,434,000</u>	<u>1,375,000</u>

SCF has adopted investment and spending policies for endowment assets to provide a predictable stream of funding to programs supported by its endowment and to maintain the value of the endowment assets. Asset allocation is reviewed quarterly with respect to i) SCF's tolerance for risk based on its financial condition and need for cash from investments to support operations, ii) expected asset class return, risk, and correlation characteristics, and iii) changes in accounting guidance, tax law, or other restrictions.

SCF's spending practices are intended to comply with donor's wishes and meet all applicable laws and regulations. Spending must be for a purpose that is consistent with the documented intent of the donor, and may not exceed the amounts annually determined by the SCF's board of directors. Factors that are considered in addressing the annual spending allocation are i) market value of the fund relative to the principal of the gift and ii) the level of spending in prior years.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires SCF to retain as a fund of perpetual duration. Deficiencies of this nature are reported as a reduction to unrestricted net assets and are excluded from the performance indicator.

SCF follows the guidance in the UPMIFA in determining the net asset classification of all donor-restricted endowment funds. In accordance with board policy, assets classified as permanent endowments in accordance with donor intent are only utilized for current period expenditures to the extent that earnings on the endowment exceed the original fair value of the donation. To the extent earnings on endowment funds exceed identified expenditures on which to apply those earnings, the earnings are classified as temporarily restricted net assets. As of December 31, 2012 and 2011, unspent earnings on endowment funds totaling \$215,000 and \$123,000, respectively, were included in temporarily restricted net assets.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(5) Debt Agreements

Long-term obligations consisted of the following at December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Hospital Facility Authority of Deschutes County Oregon (the Authority) Hospital Revenue Refunding Bonds Series 2008 (the 2008 Bonds)	\$ 103,460,000	103,460,000
The Authority Hospital Revenue Bonds Series 2005B (the 2005B Bonds)	46,600,000	47,525,000
The Authority Hospital Revenue Bonds Series 2002 (the 2002 Bonds)	—	1,720,000
GE Healthcare Finance Notes Payable	—	1,010,000
Wells Fargo Bank and Wells Equipment Finance Notes Payable	1,151,000	1,116,000
GE Healthcare Financial Notes Payable	635,000	1,051,000
U S Bancorp Technology Leasing Master Lease	4,976,000	7,660,000
Bend Ortho Building Associates Lease	8,760,000	8,567,000
Banc of America Leasing Healthcare Finance	1,901,000	3,450,000
Other	508,000	733,000
Less unamortized discount on bonds, net	<u>(1,561,000)</u>	<u>(1,654,000)</u>
Total long-term obligations	166,430,000	174,638,000
Less current portion	<u>(9,707,000)</u>	<u>(9,298,000)</u>
Long-term obligations, net of current portion	<u>\$ 156,723,000</u>	<u>165,340,000</u>

In December 2008, the Authority issued the 2008 Bonds in the amount of \$103,460,000. The proceeds of the 2008 Bonds were primarily used to advance refund the 2005A Bonds, make the termination payment related to a swap agreement, and establish a debt service reserve fund. The 2008 Bonds bear interest at rates ranging from 5.500% to 8.250% payable semiannually each January 1 and July 1 and require annual principal payments each January 1 (including mandatory redemptions) ranging from \$1,420,000 in 2013 to \$12,000,000 in 2038. The 2008 Bonds maturing on and after January 1, 2020 are subject to optional redemption prior to maturity, at the option of the Authority (such option shall be exercised at the request of the Corporation), at par, plus accrued interest.

In December 2005, SCHS entered into agreements with the Authority, whereby the Authority issued the 2005B Bonds in the amount of \$51,800,000 (the 2005 Bonds). The proceeds from the 2005B Bonds were primarily used to finance certain capital additions and improvements at St. Charles Bend and St. Charles Redmond. The 2005B Bonds bear interest at rates ranging from 4.000% to 5.375% payable semiannually each January 1 and July 1 and require annual principal payments each January 1 (including mandatory redemptions) ranging from \$925,000 in 2013 to \$7,150,000 in 2035.

In April 2002, SCHS entered into an agreement with the Authority, whereby the Authority issued the 2002 Bonds in the amount of \$75,000,000. The proceeds from the 2002 Bonds were primarily used to finance certain capital additions and improvements at St. Charles Bend and St. Charles Redmond. The 2002 Bonds

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

bore interest at rates ranging from 4.700% to 5.000% payable semiannually each January 1 and July 1. The final annual principal payment was made in January 2012.

Under the terms of the agreements (the Agreements) between SCHS and the Authority related to the 2005B Bonds and the 2002 Bonds (collectively, the 2005B and 2002 Bonds), SCHS has (1) collateralized the 2005B and 2002 Bonds with SCHS' gross receivables (as defined in the Agreements) and (2) obtained bond insurance which unconditionally guarantees payment of principal and interest on the 2005B and 2002 Bonds. Under the terms of the agreement (the 2008 Agreement) between SCHS and the Authority related to the 2008 Bonds, SCHS has (1) collateralized the 2008 Bonds with SCHS' gross receivables (as defined in the 2008 Agreement) and (2) agreed to grant a leasehold deed of trust on the St. Charles Bend main hospital building and related improvements to the trustee for the 2008 Bonds (the Trustee), as well as entered into a 50-year ground lease related to the underlying land for this property with the Trustee. Additionally, SCHS has agreed to not create or allow any other mortgage, pledge, or security in SCHS' facilities, except as permitted in the Agreements, maintain certain reserve funds with a trustee, and meet certain financial ratios on an annual basis.

The note payable to GE Healthcare Finance, which was used to finance the purchase of a helicopter and the remodel of a hangar, bore interest at a fixed rate of 5.97% and was collateralized by a security interest in the helicopter. The note was paid off in May 2012 with the closure of Airlink, as discussed in note 11 Discontinued Operations.

In July 2007, SCHS entered into a lease agreement with U.S. Bancorp Technology Leasing (the U.S. Bancorp Master Lease Agreement) to partially finance the acquisition and implementation of an information system. As of December 31, 2012, \$4,976,000 was outstanding related to six leases under the U.S. Bancorp Master Lease Agreement. As of December 31, 2012, monthly lease payments for these leases totaling \$233,000 (including interest at 6.7% to 7.7%) are required up to September 2013 at which point SCHS intends to pay off the remaining obligations under this U.S. Bancorp Master Lease Agreement due to a planned replacement of the information system.

The Bend Ortho Building Associates lease represents a lease of an approximately 30,000-square-foot building that expires on December 31, 2014, with two 5-year renewal options. Under this agreement, SCHS has the option to purchase the building on December 31, 2014 – or at the end of either of the subsequent renewal periods – at a price determined based on a formula that includes the net operating income of the building and a capitalization rate, all as defined in the lease agreement. In addition, the lessor has the right at any time during the lease term (including renewals) to require SCHS to purchase the building at a price using this same formula. Under the terms of the lease, SCHS is required to make monthly payments of approximately \$66,000. Additionally, SCHS incurs annual interest expense, representing the accretion of the obligation, in order to have the purchase obligation under the lease properly recorded.

In September 2003, SCHS entered into a sublease agreement with the Authority, whereby the Authority financed the construction of a central utility plant and related energy management systems (the Plant) for St. Charles Bend with a lease agreement with Banc of America Healthcare Finance (B of A) (collectively, the B of A Master Lease and Sublease Agreement). Under the terms of the B of A Master Lease and Sublease Agreement, SCHS is required to make monthly payments of \$140,000 through March 2014, including interest at 4.65%. Upon receipt of the final scheduled lease payment, B of A shall terminate and

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

release its security interest in the Plant to SCHS. SCHS has the option to purchase the Plant at any time during the term of the B of A Master Lease and Sublease Agreement by paying the remaining lease payments, plus a 1.00% prepayment penalty multiplied by the number of years remaining in the term of the lease.

Notes payable to Wells Fargo Bank, Wells Equipment Finance, and GE Healthcare Financial represent various equipment financing arrangements at CMI. The notes bear interest ranging from 3.50% to 6.83%, mature at various times from 2013 to 2017, and are secured by equipment.

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

	<u>Long-term debt</u>	<u>Capital lease obligations</u>
2013	\$ 3,043,000	7,708,000
2014	3,008,000	1,176,000
2015	2,970,000	9,282,000
2016	2,966,000	43,000
2017	2,967,000	—
Thereafter	137,157,000	—
	<u>\$ 152,111,000</u>	18,209,000
Less amount representing interest under capital lease obligations		(2,329,000)
		<u>\$ 15,880,000</u>

The above described debt instruments carry various financial covenants that the Corporation is required to measure on an annual basis.

As of December 31, 2012, SCHS had a \$3,000,000 unsecured line-of-credit agreement with U.S. Bank. There were no amounts outstanding under this line-of-credit agreement at December 31, 2012 or 2011. Borrowings outstanding under this line-of-credit agreement bear interest at the greater of the U.S. Bank's prime rate plus 0.50% or 3.75%. The line of credit expires on November 30, 2013.

Interest cost incurred during the years ended December 31, 2012 and 2011 was \$13,038,000 and \$13,216,000, respectively. No interest expense or interest income was capitalized during the years ended December 31, 2012 and 2011.

(6) Commitments and Contingencies

(a) Operating Leases

SCHS leases office space and equipment under operating lease agreements, which expire at various dates through 2026. Certain of these lease agreements contain renewal options. A portion of the leased office space has been subleased to unrelated third parties. In addition, effective January 1, 2008, SCHS leased the land, buildings, and equipment of PMH (the PMH Lease) and the lessor is

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Pioneer Memorial Hospital As of December 31, 2012, future minimum rental commitments for the five years subsequent to and thereafter, under noncancelable operating lease agreements, that have initial or remaining lease terms in excess of a year were as follows

2013	\$	4,792,000
2014		4,417,000
2015		3,620,000
2016		1,996,000
2017		738,000
Thereafter		<u>5,870,000</u>
Total minimum lease payments		21,433,000
Less total minimum sublease rentals		<u>(581,000)</u>
	\$	<u><u>20,852,000</u></u>

Included in the commitments above are lease payments required under the PMH Lease. Such payments vary by year based on PMH's future required debt and lease payments that were in effect as of January 1, 2008. Such future minimum lease payments total approximately \$8,110,000 and decrease from approximately \$607,000 in 2013 to approximately \$170,000 in 2026 (at which time, all currently outstanding PMH debt and lease payments will have been paid). In addition, the PMH Lease requires SCHS to annually invest a minimum of \$200,000 toward capital purchases and renovations at PMH through the term of the lease (2031), plus certain additional amounts based on PMH's operating results. The PMH Lease may be terminated by either party with 24 month notice as described in the lease.

Certain of the leases above are with related entities. As of December 31, 2012, the total future minimum rental commitments expected to be paid on these related entity leases aggregate approximately \$4,563,000.

Rent expense totaled \$7,638,000 and \$8,767,000 for the years ended December 31, 2012 and 2011, respectively, and is included in medical supplies, drugs, and other in the accompanying consolidated statements of operations.

(b) Medical Malpractice Insurance

SCHS is self-insured for malpractice and other general liability coverage through Cascadia Insurance Company, Inc. (CICI), a captive insurance company wholly owned by SCHS. CICI provides coverage of SCHS' claims up to a \$500,000 per occurrence limit and a \$3,000,000 annual aggregate limit, and SCHS purchases excess insurance for claims exceeding such limits. CICI's coverage for SCHS is retroactive to occurrences since July 1, 2004 reported after July 1, 2005. Under SCHS' policy with CICI, medical malpractice claims reported by SCHS to CICI during the policy period are covered, however, any medical malpractice claim that has been incurred but not reported (IBNR) to CICI during the policy period is not covered.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Based on an actuarial valuation, the Corporation, including CICI, has recorded estimated liabilities for IBNR medical malpractice claims, which, along with deductibles on reported claims, aggregated \$3,855,000 and \$4,342,000 as of December 31, 2012 and 2011, respectively, and are included in other noncurrent liabilities in the accompanying consolidated balance sheets. Management believes that these estimated liabilities are adequate to cover actual ultimate expenses; however, the establishment of estimated liabilities for medical malpractice claims is an inherently uncertain process, and there can be no assurance that currently established liabilities will prove adequate. Subsequent actual experience could result in liabilities being too high or too low, which could positively or negatively impact the Corporation's reported consolidated operations in future periods.

(c) Self-Insurance

SCHS is self-insured for medical, dental, and vision benefits provided to its employees for claims up to \$300,000 per employee. SCHS is also self-insured for state unemployment claims. SCHS recognizes self-insurance costs based on claims filed with its third-party administrators and estimates for IBNR claims. Management believes that adequate amounts have been accrued in the accompanying consolidated financial statements to cover any related potential losses.

(d) Risk Management

In the ordinary course of business, the Corporation is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, and natural disasters. However, management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the years ended December 31, 2012 and 2011.

(e) Guaranties

As of December 31, 2012, SCHS is a guarantor of the following loans of certain related entities:

Entity	Loan balances outstanding at December 31, 2012 (unaudited)	SCHS' guaranties	Loan expiration dates
Cascade Medical Buildings, LLC	\$ 22,043,000	11,022,000	April 2021
Heart Center of the Cascades, LLC	9,196,000	4,598,000	December 2015

In the opinion of management, the likelihood that SCHS will be required to make any payments under the guaranties is remote, and the estimated fair value of such guaranties is not significant to the accompanying consolidated financial statements; accordingly, no liability related to these guaranties has been recorded in the accompanying consolidated balance sheets.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(f) Regulations and Litigation

The healthcare industry is subject to various laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has remained high with respect to investigations and allegations concerning possible violations by healthcare providers of regulations, which could result in the expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments of patient services previously billed and collected. Management believes that the Corporation is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations, however, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

In addition, the Corporation becomes involved in litigation and other regulatory investigations arising in the ordinary course of business. After consultation with legal counsel, management believes that these matters will be resolved without causing a material adverse effect on the Corporation's future consolidated financial position or results of operations.

(g) Collective Bargaining Agreements

Approximately 5% of SCHS employees, including nurses and certain professional employees, were covered under collective bargaining agreements at December 31, 2012 that expire in 2013. An additional 23% are covered under contracts expiring beyond 2013.

In February 2011, selected SCHS employees voted to become part of a new collective bargaining unit covering service workers representing approximately 19% of SCHS employees. A collective bargaining agreement was not reached and the covered employees passed a decertification vote in November 2012.

(h) Healthcare Reform

As a result of enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the U.S. healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. This federal healthcare reform legislation does not affect the 2011 or 2012 consolidated financial statements.

(7) Retirement Plan

Substantially all employees of SCHS are eligible to participate in SCHS' defined contribution retirement plan (the Plan). Under the Plan, SCHS matches each participant's contributions up to 6% of his or her salary. Employees are eligible to receive SCHS' matching contributions once they achieve at least 21 years of age, work 1,000 hours or more during the year, and have been continuously employed by SCHS for one year or more. SCHS' expense relating to the Plan during the years ended December 31, 2012 and 2011

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

was \$7,516,000 and \$7,028,000, respectively, and is included in employee benefits in the accompanying consolidated statements of operations

(8) Other Related-Party Transactions

The following is a summary of SCHS' primary unconsolidated related-party investments at December 31, 2012 and 2011

Entity	Basis of accounting	Ownership as of December 31, 2012	Investment balance included in the accompanying consolidated balance sheets		SCHS' share of income (loss) included in the accompanying consolidated statements of operations	
			December 31			
			2012	2011	2012	2011
CMB	Equity method	50%	\$ 680,000	762,000	313,000	175,000
CPH	Equity method	50	162,000	249,000	(87,000)	(85,000)
HCC	Equity method	50	(1,507,000)	(1,412,000)	(65,000)	(370,000)
CS	Equity method	50	662,000	473,000	1,274,000	854,000
COMRI	Equity method	33	565,000	501,000	1,209,000	1,384,000
SOLS	Equity method	28	622,000	540,000	82,000	13,000
CONet	Fair value investment	N/A	—	—	—	—
IOC	Cost method	50	20,000	20,000	—	—
HF	Cost method	14	54,000	54,000	—	—

In addition to SCF, CICI, SCMSO, and CMI, SCHS has investments in the following related entities

(a) Cascade Medical Buildings, LLC (CMB)

CMB is a limited liability company whose two members are SCHS (50% ownership interest) and Deschutes Medical Buildings, LLC (50% ownership interest). CMB was formed to build, own, and manage a medical office building on land leased from SCHS. SCHS rents approximately 9,950 square feet in this building. During the years ended December 31, 2012 and 2011, SCHS received member distributions of \$395,000 and \$137,000, respectively, from CMB. During each of the years ended December 31, 2012 and 2011, SCHS earned rental income from CMB of approximately \$155,000 under the land lease. During the years ended December 31, 2012 and 2011, SCHS incurred rent expense for facilities owned by CMB of \$218,000 and \$216,000, respectively.

(b) Cascade Property Holdings, LLC (CPH)

CPH is a limited liability company whose two members are SCHS (50% ownership interest) and Deschutes Medical Buildings, LLC (50% ownership interest). CPH owns bare land held for investment purposes in Bend, Oregon.

(c) Heart Center of the Cascades, LLC (HCC)

HCC is a limited liability company whose two members are SCHS (50% ownership interest) and CCC Real Properties, LLC (50% ownership interest). HCC was formed to build, own, and manage a medical building on land leased from SCHS. During the years ended December 31, 2012 and 2011, SCHS received member distributions of \$30,000 and \$10,000 from HCC. During the years ended December 31, 2012 and 2011, SCHS earned income from HCC of \$362,000 and \$306,000.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

respectively, under the land lease and from the provision of certain facility services. During the years ended December 31, 2012 and 2011, SCHS incurred rent expense related to a lease with HCC of \$784,000 and \$791,000, respectively.

HCC entered into an interest rate swap agreement in 2007 with Key Bank. The swap agreement was transferred to U S Bank in November 2010. The swap agreement is considered a cash flow hedge and has been deemed ineffective by management. As a result, the changes in fair value in the interest rate swap are included in excess of revenues over expenses. As of December 31, 2012 and 2011, HCC had a liability of \$1,707,000 and \$1,911,000, respectively, related to this swap agreement. SCHS recorded its share of the changes in the fair value of the swap agreement as a component of other, net in the accompanying consolidated statements of operations.

(d) *Cascade Surgicenter, LLC (CS)*

CS is a limited liability company whose two members are SCHS (50% ownership interest) and Deschutes Surgicenter, LLC (50% ownership interest). CS was formed to own, operate, and manage an outpatient surgery center located in facilities owned by CMB. SCHS received member distributions of \$1,085,000 and \$705,000, respectively, from CS during the years ended December 31, 2012 and 2011. During the years ended December 31, 2012 and 2011, CS incurred rent expense for facilities owned by CMB of \$777,000 and \$776,000, respectively.

(e) *Central Oregon Magnetic Resonance Imaging, LLC (COMRI)*

COMRI is a limited liability company, which is owned by SCHS, CORA, and certain physicians. SCHS owns a one-third interest in COMRI. COMRI owns and operates three magnetic resonance imaging machines located in Bend and Redmond, Oregon. During the years ended December 31, 2012 and 2011, SCHS received member distributions of \$1,145,000 and \$1,281,000, respectively, from COMRI. During the years ended December 31, 2012 and 2011, SCHS charged COMRI \$464,000 and \$535,000, respectively, for certain staffing services, rent, and supplies. In addition, during the years ended December 31, 2012 and 2011, SCHS incurred professional fees expense of \$2,629,000 and \$2,442,000, respectively, for services rendered by COMRI. Included in accounts payable in the accompanying consolidated balance sheets are amounts due to COMRI for these services of \$210,000 and \$209,000, as of December 31, 2012 and 2011, respectively.

(f) *Southern Oregon Linen Service (SOLS)*

SOLS is an Oregon cooperative corporation that provides laundry, linen, and uniform services to members of the cooperative. SCHS owns 28% of the outstanding common stock of SOLS, and St Charles Bend, St Charles Redmond and PMH utilize the laundry and linen services provided by this cooperative. SCHS received member distributions of \$0 and \$3,000, respectively, from SOLS during the years ended December 31, 2012 and 2011. SCHS incurred laundry and linen expense with SOLS of \$1,176,000 and \$1,225,000, for the years ended December 31, 2012 and 2011, respectively.

(g) *CONet Inc. (CONet)*

CONet is an Oregon public benefit nonprofit corporation established to facilitate the provision of certain healthcare services to Central and Eastern Oregon residents by combining the resources of certain hospitals in the Central and Eastern Oregon area. SCHS works cooperatively with hospitals in

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

other communities through CONet to provide a smooth continuation of healthcare services. CONet's board of directors consists of the Chief Executive Officer of St. Charles – Bend and the Chief Executive Officer of each of the five other hospitals in the Central and Eastern Oregon area.

(h) *Institute of the Cascades (IOC)*

IOC is a limited liability company whose two members are SCHS (50% ownership interest) and The Neuromusculoskeletal Center of the Cascades PC (NCC) (50% ownership interest). IOC provides administration and marketing to promote CMB, CSC, NCC, and SCHS.

(i) *Health Futures (HF)*

Health Futures LLC (HF) is a limited liability company whose members participate in centralized administrative services in Oregon. SCHS owns approximately 14% of HF. Primarily, SCHS benefits from group purchasing agreements. SCHS receives distributions from time to time that are treated as a reduction to purchases and not a return of capital, as they are the result of group purchasing agreements.

(9) Functional Classification of Expenses

Expenses on a functional basis for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Healthcare services	\$ 389,629,000	370,739,000
General and administrative	94,587,000	87,800,000
	<u>\$ 484,216,000</u>	<u>458,539,000</u>

(10) Fair Value Measurements

The Corporation applies the provisions of FASB ASC Topic 820, *Fair Value Measurement* (ASC 820) for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety

The following table presents assets and liabilities that are measured at fair value on a recurring basis at December 31, 2012

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2012			
Assets				
Assets limited as to use				
Cash and cash equivalents	\$ 8,429,000	8,429,000	—	—
Equity mutual funds				
Medium cap blend	6,882,000	6,882,000	—	—
Small cap blend	6,969,000	6,969,000	—	—
Large cap growth	15,889,000	15,889,000	—	—
Large cap balanced	45,966,000	45,966,000	—	—
Large cap value	15,843,000	15,843,000	—	—
Large cap blend	14,000	14,000	—	—
International growth	13,459,000	13,459,000	—	—
International value	13,621,000	13,621,000	—	—
International large cap	47,000	47,000	—	—
International balance	27,570,000	27,570,000	—	—
Market neutral	11,508,000	11,508,000	—	—
REIT sector	23,902,000	23,902,000	—	—
Money market	16,000	16,000	—	—
Fixed-income mutual funds				
Treasury intermediate	35,828,000	35,828,000	—	—
Inv grade corp interm	12,278,000	12,278,000	—	—
Inv grade corp short	11,736,000	11,736,000	—	—
High-yield bond	58,000	58,000	—	—
Corporate obligations	10,403,000	—	10,403,000	—
U S government agencies	1,970,000	—	1,970,000	—
U S government treasuries	1,968,000	1,968,000	—	—
Cash surrender value of life insurance	248,000	—	248,000	—
	<u>\$ 264,604,000</u>	<u>251,983,000</u>	<u>12,621,000</u>	<u>—</u>

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The following table presents assets and liabilities that are measured at fair value on a recurring basis at December 31, 2011

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2011			
Assets				
Assets limited as to use				
Cash and cash equivalents	\$ 9,257,000	9,257,000	—	—
Equity mutual funds				
Medium cap blend	5,584,000	5,584,000	—	—
Small cap blend	5,526,000	5,526,000	—	—
Small cap value	35,000	35,000	—	—
Large cap growth	12,524,000	12,524,000	—	—
Large cap balanced	36,612,000	36,612,000	—	—
Large cap value	13,151,000	13,151,000	—	—
International growth	6,310,000	6,310,000	—	—
International value	6,203,000	6,203,000	—	—
International large cap	40,000	40,000	—	—
International balance	12,415,000	12,415,000	—	—
REIT sector	18,683,000	18,683,000	—	—
Money market	1,393,000	1,393,000	—	—
Fixed-income mutual funds				
Treasury intermediate	19,668,000	19,668,000	—	—
Inv grade corp interm	9,621,000	9,621,000	—	—
Inv grade corp short	37,090,000	37,090,000	—	—
High-yield bond	54,000	54,000	—	—
Intermediate bond	287,000	287,000	—	—
Corporate obligations	10,767,000	—	10,767,000	—
U S government agencies	2,229,000	—	2,229,000	—
U S government treasuries	1,792,000	1,792,000	—	—
Cash surrender value of life insurance	229,000	—	229,000	—
Accrued interest receivable	4,000	—	4,000	—
	<u>\$ 209,474,000</u>	<u>196,245,000</u>	<u>13,229,000</u>	<u>—</u>

ST. CHARLES HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The fair value of long-term obligations is estimated using current market activity and discounted cash flow analysis and is considered a Level 2 measurement under ASC 820. The fair value and carrying amount of long-term obligations at December 31, 2012 and 2011 were as follows:

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term obligations	\$ 166,430,000	197,752,000	174,638,000	199,406,000

(11) Discontinued Operations

Effective June 1, 2012, SCHS closed its emergency air ambulance transportation business "Airlink." The closure included ceasing all air ambulance operations, transferring all Airlink membership program activities to a new provider and selling the aircraft used to provide the air ambulance transportation services. Airlink had distinct and identifiable assets, liabilities and cash flows and was considered a component of SCHS. As a result, the closure of Airlink is reported as discontinued operations in these consolidated financial statements. The following table provides summary financial information for Airlink for the years ended December 31, 2012 and 2011:

	2012	2011
Operating revenues	\$ 2,915,000	8,953,000
Operating expenses	4,109,000	8,451,000
Operating (loss) income	(1,194,000)	502,000
Gain on sale of assets	3,693,000	—
Gain on discontinued operations	\$ 2,499,000	502,000

(12) Subsequent Events

The Corporation has performed an evaluation of subsequent events through March 26, 2013, which is the date these consolidated financial statements were issued.

Effective January 1, 2013, SCHS assumed the operations and substantially all of the assets of Mountain View Hospital District (MVHD), located in Madras, Oregon, in exchange for assumption of substantially all of MVHD's liabilities and payment of certain outstanding MVHD debt obligations. The facility was renamed St. Charles Madras and SCHS intends to continue to offer substantially the same healthcare services to the community of Madras and the surrounding Jefferson County area.

SUPPLEMENTARY SCHEDULES

ST. CHARLES HEALTH SYSTEM, INC.
Supplementary Schedule – Balance Sheet Information
December 31, 2012 and 2011

Assets	Obligated group	Nonobligated group excluding St. Charles Foundation, Inc.	St. Charles Foundation, Inc.	Eliminating and reclassifying entries	2012	2011
Current assets						
Cash and cash equivalents	\$ 25,303,000	540,000	1,174,000	—	27,017,000	18,477,000
Assets limited as to use, current portion	7,671,000	—	—	—	7,671,000	8,033,000
Patient accounts receivable, net of allowance	60,122,000	1,868,000	—	—	61,990,000	76,772,000
Other receivables, net	9,245,000	9,000	587,000	(135,000)	9,706,000	6,922,000
Supplies inventory	8,935,000	—	—	—	8,935,000	9,365,000
Prepaid expenses and other current assets	7,104,000	116,000	5,000	—	7,225,000	6,564,000
Total current assets	118,380,000	2,533,000	1,766,000	(135,000)	122,544,000	126,133,000
Assets limited as to use, net of current portion	251,225,000	721,000	7,152,000	—	259,098,000	203,501,000
Property and equipment, net	206,353,000	4,710,000	—	—	211,063,000	223,057,000
Other assets, net	20,858,000	6,842,000	—	(14,649,000)	13,051,000	11,138,000
Total assets	\$ 596,816,000	14,806,000	8,918,000	(14,784,000)	605,756,000	563,829,000
Liabilities and Net Assets						
Current liabilities						
Accounts payable	\$ 18,486,000	662,000	—	(125,000)	19,023,000	21,730,000
Accrued liabilities	35,573,000	6,000	—	—	35,579,000	31,798,000
Estimated third-party payor settlements, net	5,058,000	—	—	—	5,058,000	3,549,000
Deferred revenue	359,000	—	—	(10,000)	349,000	1,068,000
Current portion of long-term obligations	8,971,000	736,000	—	—	9,707,000	9,298,000
Total current liabilities	68,447,000	1,404,000	—	(135,000)	69,716,000	67,443,000
Long-term obligations, net of current portion	155,429,000	1,294,000	—	—	156,723,000	165,340,000
Other liabilities	3,855,000	—	74,000	—	3,929,000	4,699,000
Total liabilities	227,731,000	2,698,000	74,000	(135,000)	230,368,000	237,482,000
Net assets						
Unrestricted, SCHS	364,070,000	12,108,000	2,111,000	(10,875,000)	367,414,000	318,617,000
Unrestricted, noncontrolling interests	—	—	—	2,959,000	2,959,000	2,693,000
Temporarily restricted	3,581,000	—	3,896,000	(3,896,000)	3,581,000	3,662,000
Permanently restricted	1,434,000	—	2,837,000	(2,837,000)	1,434,000	1,375,000
Total net assets	369,085,000	12,108,000	8,844,000	(14,649,000)	375,388,000	326,347,000
Total liabilities and net assets	\$ 596,816,000	14,806,000	8,918,000	(14,784,000)	605,756,000	563,829,000

See accompanying independent auditors' report

ST. CHARLES HEALTH SYSTEM, INC.
Supplementary Schedule – Statement of Operations Information
Years ended December 31, 2012 and 2011
(Dollars in thousands)

	Obligated group	Nonobligated group excluding St. Charles Foundation, Inc.	St. Charles Foundation, Inc.	Eliminating and reclassifying entries	2012	2011
Operating revenue						
Net patient service revenue prior to bad debt adjustments	\$ 494,830,000	22,674,000	—	(12,518,000)	504,986,000	476,144,000
Bad debt adjustments	24,216,000	—	—	—	24,216,000	26,522,000
Net patient service revenue	470,614,000	22,674,000	—	(12,518,000)	480,770,000	449,622,000
Other revenue	25,934,000	—	1,441,000	(3,008,000)	24,367,000	17,271,000
Total operating revenue	496,548,000	22,674,000	1,441,000	(15,526,000)	505,137,000	466,893,000
Expenses						
Salaries and wages	193,907,000	5,092,000	388,000	(388,000)	198,999,000	185,588,000
Employee benefits	65,034,000	—	142,000	(142,000)	65,034,000	59,496,000
Professional fees	48,723,000	—	27,000	(12,545,000)	36,205,000	39,294,000
Depreciation	29,855,000	1,320,000	—	—	31,175,000	30,816,000
Interest	12,907,000	113,000	—	—	13,020,000	13,114,000
Medical supplies, drugs, and other	134,654,000	6,915,000	481,000	(2,267,000)	139,783,000	130,231,000
Total expenses	485,080,000	13,440,000	1,038,000	(15,342,000)	484,216,000	458,539,000
Operating income	11,468,000	9,234,000	403,000	(184,000)	20,921,000	8,354,000
Other income (losses)						
Investment income, net	27,006,000	—	272,000	143,000	27,421,000	2,042,000
Other, net	376,000	(269,000)	—	—	107,000	(200,000)
Total other income, net	27,382,000	(269,000)	272,000	143,000	27,528,000	1,842,000
Excess of revenue over expenses	38,850,000	8,965,000	675,000	(41,000)	48,449,000	10,196,000
Increase (decrease) in interest in net assets of St. Charles Foundation, Inc.	648,000	—	—	(648,000)	—	—
Gain on discontinued operations	2,499,000	—	—	—	2,499,000	502,000
Net assets released from restriction for use	516,000	—	—	—	516,000	183,000
Capital contributions	43,000	—	—	—	43,000	—
Transfers (to) from affiliated organizations	(20,000)	—	(21,000)	21,000	(20,000)	(34,000)
Distributions	5,655,000	(8,079,000)	—	—	(2,424,000)	(2,038,000)
Change in unrestricted net assets	\$ 48,191,000	886,000	654,000	(668,000)	49,063,000	8,809,000

See accompanying independent auditors' report

Additional Data

Software ID: 11000175
Software Version:
EIN: 93-0602940
Name: ST CHARLES HEALTH SYSTEM INC

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

4d. Other program services					
(Code) (Expenses \$	43,448,816	including grants of \$	1,288) (Revenue \$	69,452,250)
Pioneer Memorial Hospital, Air Link, Home Health & Hospice, Sage View mental health, Sleep Lab, Psychiatric Emergency, Sage View mental health, Sleep Lab, Psychiatric Emergency, Sage View mental health, Sleep Lab, Psychiatric Emergency,					