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Form **990**Department of the Treasury
Internal Revenue Service**Return of Organization Exempt From Income Tax**

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

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

OMB No. 1545-0047

2011

Open to Public Inspection

A For the 2011 calendar year, or tax year beginning **OCT 1, 2011** and ending **SEP 30, 2012****B** Check if applicable

- ☐ Address change
☐ Name change
☐ Initial return
☐ Terminated
☐ Amended return
☐ Application pending

C Name of organization**Tuality Healthcare Foundation**

Doing Business As

Number and street (or P.O. box if mail is not delivered to street address)

334 SE Eighth Avenue

Room/suite

City or town, state or country, and ZIP + 4

Hillsboro, OR 97123**F** Name and address of principal officer **Richard Stenson****334 SE EIGHTH AVENUE, HILLSBORO, OR 97123****D** Employer identification number**93-0751507****E** Telephone number**503-681-1170****G** Gross receipts \$ **1,247,726.****H(a)** Is this a group returnfor affiliates? ☐ Yes ☒ No**H(b)** Are all affiliates included? ☐ Yes ☐ No

If "No," attach a list (see instructions)

H(c) Group exemption number ▶**I** Tax-exempt status ☒ 501(c)(3) ☐ 501(c) () (insert no.) ☐ 4947(a)(1) or ☐ 527**J** Website: ▶ **http://www.tualityfoundation.org****K** Form of organization: ☒ Corporation ☐ Trust ☐ Association ☐ Other ▶**L** Year of formation: **1979** **M** State of legal domicile: **OR****Part I Summary**

Activities & Governance	1 Briefly describe the organization's mission or most significant activities	See Schedule O	
	2 Check this box ☐ if the organization discontinued its operations or disposed of more than 25% of its net assets		
	3 Number of voting members of the governing body (Part VI, line 1a)	3	21
	4 Number of independent voting members of the governing body (Part VI, line 1b)	4	20
	5 Total number of individuals employed in calendar year 2011 (Part V, line 2a)	5	0
	6 Total number of volunteers (estimate if necessary)	6	0
	7a Total unrelated business revenue from Part VIII, column (C), line 12	7a	0.
b Net unrelated business taxable income from Form 990-T, line 34	7b	0.	
Revenue	8 Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
	9 Program service revenue (Part VIII, line 2g)	711,733.	812,984.
	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	0.	0.
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	61,838.	114,495.
	12 Total revenue - add lines 8 through 11 (must equal Part VIII, column (A), line 12)	40,733.	99,303.
	12 Total revenue - add lines 8 through 11 (must equal Part VIII, column (A), line 12)	814,304.	1,026,782.
Expenses	13 Grants and similar amounts paid (Part IX, column (A), lines 1-3)	1,285,910.	1,296,491.
	14 Benefits paid to or for members (Part IX, column (A), line 4)	0.	0.
	15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5-10)	0.	0.
	16a Professional fundraising fees (Part IX, column (A), line 11e)	0.	0.
	b Total fundraising expenses (Part IX, column (D), line 25)	0.	0.
	17 Other expenses (Part IX, column (A), lines 11a-11d, 11f-24e)	26,464.	8,427.
18 Total expenses. Add lines 13-17 (must equal Part IX, column (A), line 25)	1,312,374.	1,304,918.	
19 Revenue less expenses. Subtract line 18 from line 12	-498,070.	-278,136.	
Net Assets or Fund Balances	20 Total assets (Part X, line 16)	Beginning of Current Year	End of Year
	21 Total liabilities (Part X, line 26)	5,296,614.	5,626,707.
	22 Net assets or fund balances. Subtract line 21 from line 20	394,814.	368,285.
		4,901,800.	5,258,422.

Part II Signature Block

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

Sign Here	Signature of officer	Date			
	Tim Fleischmann, CFO	8/13/13			
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check if self-employed	PTIN
	Lester L. Fordham	Lester L. Fordham	8/13/13	☐	P00079631
	Firm's name ▶ FORDHAM GOODFELLOW, LLP	Firm's EIN ▶ 93-1298398			
	Firm's address ▶ 233 SE Second Ave. Hillsboro, OR 97123-4016	Phone no. 503-648-6651			

May the IRS discuss this return with the preparer shown above? (see instructions)

☒ Yes ☐ No

Part III Statement of Program Service Accomplishments

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

☒ X**1** Briefly describe the organization's mission

The mission of the Tuality Healthcare Foundation is to acquire and manage philanthropic contributions. We direct these funds to medical and health education projects and programs that we believe will advance our community's physical and

CONTINUED ON SCHEDULE O

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 \$ 1,296,491. including grants of \$ 1,296,491.) (Revenue \$ _____)

See Annual Report and Schedule of Grants and Allocations

4b (Code _____) (Expenses \$ 3,189. including grants of \$ _____) (Revenue \$ _____)

Health educational pamphlets and materials provided for various community health education programs

4c (Code _____) (Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

4d Other program services (Describe in Schedule O)

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

4e Total program service expenses 1,299,680.

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)? <i>If "Yes," complete Schedule A</i>	X	
2 Is the organization required to complete <i>Schedule B, Schedule of Contributors</i> ?	X	
3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I</i>		X
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? <i>If "Yes," complete Schedule C, Part II</i>		X
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? <i>If "Yes," complete Schedule C, Part III</i>		X
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? <i>If "Yes," complete Schedule D, Part I</i>		X
7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? <i>If "Yes," complete Schedule D, Part II</i>		X
8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III</i>		X
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? <i>If "Yes," complete Schedule D, Part IV</i>		X
10 Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V</i>	X	
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? <i>If "Yes," complete Schedule D, Part VI</i>		X
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? <i>If "Yes," complete Schedule D, Part VII</i>		X
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? <i>If "Yes," complete Schedule D, Part VIII</i>		X
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? <i>If "Yes," complete Schedule D, Part IX</i>		X
e Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X</i>	X	
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)? <i>If "Yes," complete Schedule D, Part X</i>		X
12a Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI, XII, and XIII</i>		X
b Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional</i>	X	
13 Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E</i>		X
14a Did the organization maintain an office, employees, or agents outside of the United States?		X
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? <i>If "Yes," complete Schedule F, Parts I and IV</i>		X
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 United States? <i>If "Yes," complete Schedule F, Parts II and IV</i>		X
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 United States? <i>If "Yes," complete Schedule F, Parts III and IV</i>		X
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? <i>If "Yes," complete Schedule G, Part I</i>		X
18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? <i>If "Yes," complete Schedule G, Part II</i>	X	
19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III</i>		X
20a Did the organization operate one or more hospital facilities? <i>If "Yes," complete Schedule H</i>		X
b If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return?		

Part IV Checklist of Required Schedules (continued)

	Yes	No
21 Did the organization report more than \$5,000 of grants and other assistance to any government or organization in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i>	21 X	
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 X	
23 Did the organization answer "Yes" to Part VII, Section A, line 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 X	
24a Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25</i>	24a	X
b Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b	
c Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c	
d Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d	
25a Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i>	25a	X
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	X
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	X
27 Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? <i>If "Yes," complete Schedule L, Part III</i>	27	X
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	X
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	X
c An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i>	28c	X
29 Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i>	29	X
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	X
31 Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i>	31	X
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	X
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	X
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 X	
35a Did the organization have a controlled entity within the meaning of section 512(b)(13)?	35a	X
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	X
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	X
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	X
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 X	

Part V Statements Regarding Other IRS Filings and Tax ComplianceCheck if Schedule O contains a response to any question in this Part V ☐

		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable	1a	14
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable	1b	0
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	X
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return	2a	0
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)	2b	
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a	X
b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O	3b	
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, securities account, or other financial account)?	4a	X
b	If "Yes," enter the name of the foreign country: <u>See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.</u>		
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	5a	X
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b	X
c	If "Yes," to line 5a or 5b, did the organization file Form 8886-T?	5c	
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible?	6a	X
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b	X
7	Organizations that may receive deductible contributions under section 170(c).		
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?	7a	X
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b	X
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c	X
d	If "Yes," indicate the number of Forms 8282 filed during the year	7d	
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e	X
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f	X
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. See the instructions for additional information the organization must report on Schedule O.	13a	
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	13b	
c	Enter the amount of reserves on hand	13c	
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a	X
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O	14b	

Part VI Governance, Management, and Disclosure For each "Yes" response to lines 2 through 7b below, and for a "No" response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions

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

☒**Section A. Governing Body and Management**

	1a	21	Yes	No
1a Enter the number of voting members of the governing body at the end of the tax year. If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O.		21		
b Enter the number of voting members included in line 1a, above, who are independent	1b	20		
2 Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?		2		X
3 Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors, or trustees, or key employees to a management company or other person?		3		X
4 Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?		4		X
5 Did the organization become aware during the year of a significant diversion of the organization's assets?		5		X
6 Did the organization have members or stockholders?		6	X	
7a Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?		7a	X	
b Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?		7b	X	
8 Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following:				
a The governing body?		8a	X	
b Each committee with authority to act on behalf of the governing body?		8b	X	
9 Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O		9		X

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

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

Section C. Disclosure

17 List the states with which a copy of this Form 990 is required to be filed ► OR

18 Section 6104 requires an organization to make its Forms 1023 (or 1024 if applicable), 990, and 990-T (Section 501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply
☐ Own website ☒ Another's website ☒ Upon request

19 Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public during the tax year

20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization: ►
Tim Fleischmann - TUALITY HEALTHCAR - 503-681-1570
335 SE EIGHTH AVENUE, HILLSBORO, OR 97123

Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent ContractorsCheck 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. Enter -0- in columns (D), (E), and (F) if no compensation was paid.

- List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."

- List the organization's five **current** highest compensated employees (other than an officer, director, trustee, or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.

- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.

- List all of the organization's **former** directors or trustees that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

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

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

(A) 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) RANDY BATEMAN CHAIRMAN	0.50	X		X				0.	0.	0.
(2) RALPH BROWN BOARD MEMBER	0.50	X						0.	0.	0.
(3) MARLYS CARTER BOARD MEMBER	0.50	X						0.	0.	0.
(4) J.W. DARR BOARD MEMBER	0.50	X						0.	0.	0.
(5) MICHAEL EGANS, MD BOARD MEMBER	0.50	X						0.	0.	0.
(6) JD FUITEN BOARD MEMBER	0.50	X						0.	0.	0.
(7) DARLENE GREENE BOARD MEMBER	0.50	X						0.	0.	0.
(8) MIKE HENNINGSEN BOARD MEMBER	0.50	X						0.	0.	0.
(9) ROBERT HERB BOARD MEMBER	0.50	X						0.	0.	0.
(10) ANTHONY HOFFMAN, DMD BOARD MEMBER	0.50	X						0.	0.	0.
(11) SUE HORTON BOARD MEMBER	0.50	X						0.	0.	0.
(12) GWYNNE-ANNE PITTS BOARD MEMBER	0.50	X						0.	0.	0.
(13) NANCY PONZI BOARD MEMBER	0.50	X						0.	0.	0.
(14) BOB TERRY BOARD MEMBER	0.50	X						0.	0.	0.
(15) MARILYNN HELZERMAN SECRETARY	0.50	X		X				0.	0.	0.
(16) AMY WALTZ BOARD MEMBER	0.50	X						0.	0.	0.
(17) RICHARD STENSON CEO	0.50	X		X				0.	391,482.	62,500.

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) RUTH BURLINGTON BOARD MEMBER	0.50	X						0.	0.	0.
(19) DEBBIE CLARK BOARD MEMBER	0.50	X						0.	0.	0.
(20) REMI COUSSENS BOARD MEMBER	0.50	X						0.	0.	0.
(21) LAURENCE HORNICK BOARD MEMBER	0.50	X						0.	0.	0.
(22) TIM FLEISCHMANN CFO	0.50			X				0.	189,392.	38,500.
1b Sub-total								0.	580,874.	101,000.
c Total from continuation sheets to Part VII, Section A								0.	0.	0.
d Total (add lines 1b and 1c)								0.	580,874.	101,000.

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 **0**

- 3** Did the organization list any **former** officer, director, or trustee, key employee, or highest compensated employee on line 1a? If "Yes," complete Schedule J for such individual
- 4** For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? If "Yes," complete Schedule J for such individual
- 5** Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? If "Yes," complete Schedule J for such person

	Yes	No
3		X
4	X	
5		X

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
NONE		
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 0		

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	1 a Federated campaigns	1a					
	b Membership dues	1b					
	c Fundraising events	1c	494,416.				
	d Related organizations	1d					
	e Government grants (contributions)	1e					
	f All other contributions, gifts, grants, and similar amounts not included above	1f	318,568.				
	g Noncash contributions included in lines 1a-1f \$						
	h Total. Add lines 1a-1f			812,984.			
Program Service Revenue			Business Code				
	2 a						
	b						
	c						
	d						
	e						
	f All other program service revenue						
	g Total. Add lines 2a-2f						
Other Revenue	3 Investment income (including dividends, interest, and other similar amounts)			114,495.			114,495.
	4 Income from investment of tax-exempt bond proceeds						
	5 Royalties						
	6 a Gross rents	(i) Real	(ii) Personal				
	b Less: rental expenses						
	c Rental income or (loss)						
	d Net rental income or (loss)						
	7 a Gross amount from sales of assets other than inventory	(i) Securities	(ii) Other				
	b Less: cost or other basis and sales expenses						
	c Gain or (loss)						
	d Net gain or (loss)						
	8 a Gross income from fundraising events (not including \$ 494,416. of contributions reported on line 1c) See Part IV, line 18	a	320,247.				
	b Less: direct expenses	b	220,944.				
	c Net income or (loss) from fundraising events			99,303.			99,303.
	9 a Gross income from gaming activities See Part IV, line 19	a					
	b Less: direct expenses	b					
	c Net income or (loss) from gaming activities						
	10 a Gross sales of inventory, less returns and allowances	a					
	b Less: cost of goods sold	b					
	c Net income or (loss) from sales of inventory						
Miscellaneous Revenue		Business Code					
11 a							
b							
c							
d All other revenue							
e Total. Add lines 11a-11d							
12 Total revenue. See instructions.			1,026,782.	0.	0.	213,798.	

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	1,257,900.	1,257,900.		
2 Grants and other assistance to individuals in the United States. See Part IV, line 22	38,591.	38,591.		
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				
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7 Other salaries and wages				
8 Pension plan accruals and contributions (include section 401(k) and section 403(b) employer contributions)				
9 Other employee benefits				
10 Payroll taxes				
11 Fees for services (non-employees):				
a Management				
b Legal				
c Accounting				
d Lobbying				
e Professional fundraising services. See Part IV, line 17				
f Investment management fees				
g Other				
12 Advertising and promotion				
13 Office expenses				
14 Information technology				
15 Royalties				
16 Occupancy				
17 Travel	2,049.		2,049.	
18 Payments of travel or entertainment expenses for any federal, state, or local public officials				
19 Conferences, conventions, and meetings				
20 Interest				
21 Payments to affiliates				
22 Depreciation, depletion, and amortization				
23 Insurance				
24 Other expenses. Itemize expenses not covered above. (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O.)				
a PURCHASE SERVICES	6,378.	3,189.	3,189.	
b				
c				
d				
e All other expenses				
25 Total functional expenses. Add lines 1 through 24e	1,304,918.	1,299,680.	5,238.	0.
26 Joint costs. Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation.				

Check here ☐ if following SOP 98-2 (ASC 958-720)

Part X Balance Sheet

		(A) Beginning of year		(B) End of year
Assets	1 Cash - non-interest-bearing		1	
	2 Savings and temporary cash investments	34,249.	2	225,250.
	3 Pledges and grants receivable, net	48,283.	3	75,714.
	4 Accounts receivable, net		4	
	5 Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L		5	
	6 Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions)		6	
	7 Notes and loans receivable, net		7	
	8 Inventories for sale or use		8	
	9 Prepaid expenses and deferred charges		9	
	10a Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D	10a		
	b Less: accumulated depreciation	10b	10c	
	11 Investments - publicly traded securities	5,209,936.	11	5,268,980.
	12 Investments - other securities. See Part IV, line 11		12	
	13 Investments - program-related. See Part IV, line 11		13	
	14 Intangible assets		14	
	15 Other assets. See Part IV, line 11	4,146.	15	56,763.
	16 Total assets. Add lines 1 through 15 (must equal line 34)	5,296,614.	16	5,626,707.
Liabilities	17 Accounts payable and accrued expenses	877.	17	4,585.
	18 Grants payable		18	
	19 Deferred revenue		19	
	20 Tax-exempt bond liabilities		20	
	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		23	
	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	393,937.	25	363,700.
	26 Total liabilities. Add lines 17 through 25	394,814.	26	368,285.
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here ☒ and complete lines 27 through 29, and lines 33 and 34.			
	27 Unrestricted net assets	893,725.	27	686,975.
	28 Temporarily restricted net assets	1,491,440.	28	2,045,008.
	29 Permanently restricted net assets	2,516,635.	29	2,526,439.
	Organizations that do not follow SFAS 117, check here ☐ and complete lines 30 through 34.			
	30 Capital stock or trust principal, or current funds		30	
	31 Paid-in or capital surplus, or land, building, or equipment fund		31	
	32 Retained earnings, endowment, accumulated income, or other funds		32	
	33 Total net assets or fund balances	4,901,800.	33	5,258,422.
	34 Total liabilities and net assets/fund balances	5,296,614.	34	5,626,707.

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	1,026,782.
2	Total expenses (must equal Part IX, column (A), line 25)	2	1,304,918.
3	Revenue less expenses Subtract line 2 from line 1	3	-278,136.
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	4,901,800.
5	Other changes in net assets or fund balances (explain in Schedule O)	5	634,758.
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	5,258,422.

Part XII Financial Statements and Reporting

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

☒

- 1 Accounting method used to prepare the Form 990: ☐ Cash ☒ Accrual ☐ Other _____
If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O.
- 2a Were the organization's financial statements compiled or reviewed by an independent accountant?
- b Were the organization's financial statements audited by an independent accountant?
- c If "Yes" to line 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
- d If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both
☐ Separate basis ☒ Consolidated basis ☐ Both consolidated and separate 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?
- 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

	Yes	No
2a		☒
2b	☒	
2c	☒	
3a		☒
3b		

Form 990 (2011)

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

Tuality Healthcare Foundation

Employer identification number

93-0751507

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

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

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

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

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

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

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

8 ☐ A community trust described in **section 170(b)(1)(A)(vi).** (Complete Part II)

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

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

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

a ☐ Type I b ☐ Type II c ☐ Type III - Functionally integrated d ☐ Type III - Other

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

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

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

(i) ☐ A person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the 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)		

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

[illegible]

Total										
LHA For Paperwork Reduction Act Notice, see the Instructions for Form 990 or 990-EZ.									Schedule A (Form 990 or 990-EZ) 2011	

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

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

Section A. Public Support

Calendar year (or fiscal year beginning in) ►	(a) 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.")	869,753.	807,415.	766,272.	711,733.	812,984.	3968157.
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	869,753.	807,415.	766,272.	711,733.	812,984.	3968157.
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						3968157.

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	869,753.	807,415.	766,272.	711,733.	812,984.	3968157.
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources	227,290.	103,904.	107,943.	61,838.	114,495.	615,470.
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
11 Total support. Add lines 7 through 10						4583627.
12 Gross receipts from related activities, etc. (see instructions)					12	272,547.

13 **First five years.** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 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	86.57 %
15 Public support percentage from 2010 Schedule A, Part II, line 14	15	81.52 %
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 a box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ☐		
17a 10% -facts-and-circumstances test - 2011. If the organization did not check a box on line 13, 16a, or 16b, and line 14 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test. The organization qualifies as a publicly supported organization ☐		
b 10% -facts-and-circumstances test - 2010. If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test. The organization qualifies as a publicly supported organization ☐		
18 Private foundation. If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions ☐		

Part III Support Schedule for Organizations Described in Section 509(a)(2)

(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support

Calendar year (or fiscal year beginning in) ►	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public support (Subtract line 7c from line 6)						

Section B. Total Support

Calendar year (or fiscal year beginning in) ►	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
13 Total support (Add lines 9, 10c, 11, and 12)						

14 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and **stop here** ☐

Section C. Computation of Public Support Percentage

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

Section D. Computation of Investment Income Percentage

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

19a 33 1/3% support tests - 2011. If the organization did not check the box on line 14, and line 15 is more than 33 1/3%, and line 17 is not more than 33 1/3%, check this box and **stop here**. The organization qualifies as a publicly supported organization ☐

b 33 1/3% support tests - 2010. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3%, and line 18 is not more than 33 1/3%, check this box and **stop here**. The organization qualifies as a publicly supported organization ☐

20 Private foundation. If the organization did not check a box on line 14, 19a, or 19b, check this box and see instructions ☐

SCHEDULE D
(Form 990)Department of the Treasury
Internal Revenue Service**Supplemental Financial Statements**

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

OMB No 1545-0047

2011Open to Public
Inspection

Name of the organization

Tuality Healthcare Foundation

Employer identification number

93-0751507

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

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

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

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

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

2 Complete lines 2a through 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 Tax Year
a Total number of conservation easements	2a
b Total acreage restricted by conservation easements	2b
c Number of conservation easements on a certified historic structure included in (a)	2c
d Number of conservation easements included in (c) acquired after 8/17/06, and not on a historic structure listed in the National Register	2d

3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax 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 section 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 (ASC 958), 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 (ASC 958), 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 (ASC 958) 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 acquisition, 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

d ☐ Loan or exchange programs

b ☐ Scholarly research

e ☐ Other _____

c ☐ Preservation for future generations

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	

c Beginning balance

d Additions during the year

e Distributions during the year

f Ending balance

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	4,008,068.	4,442,993.	4,402,566.	4,473,568.	
b Contributions	911,906.	948,326.	800,425.	944,880.	
c Net investment earnings, gains, and losses	688,295.	-27,010.	255,430.	24,688.	
d Grants or scholarships	22,507.	23,876.	31,410.	22,124.	
e Other expenditures for facilities and programs	1,014,315.	1,332,366.	984,018.	1,018,446.	
f Administrative expenses					
g End of year balance	4,571,447.	4,008,067.	4,442,993.	4,402,566.	

2 Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as

a Board designated or quasi-endowment ☐ _____ %

b Permanent endowment ☒ 55.00 %

c Temporarily restricted endowment ☒ 45.00 %

The percentages in lines 2a, 2b, and 2c should equal 100%.

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

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

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

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				
b Buildings				
c Leasehold improvements				
d Equipment				
e Other				

Total. Add lines 1a through 1e. (Column (d) must equal Form 990, Part X, column (B), line 10(c))

0.

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

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives		
(2) Closely-held equity interests		
(3) Other		
(A)		
(B)		
(C)		
(D)		
(E)		
(F)		
(G)		
(H)		
(I)		
Total. (Col (b) must equal Form 990, Part X, col (B) line 12.) ▶		

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

(a) Description of investment type	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1)		
(2)		
(3)		
(4)		
(5)		
(6)		
(7)		
(8)		
(9)		
(10)		
Total. (Col (b) must equal Form 990, Part X, col (B) line 13.) ▶		

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

(a) Description	(b) Book value
(1)	
(2)	
(3)	
(4)	
(5)	
(6)	
(7)	
(8)	
(9)	
(10)	
Total. (Column (b) must equal Form 990, Part X, col (B) line 15.) ▶	

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

1. (a) Description of liability	(b) Book value
(1) Federal income taxes	
(2) Due to Affiliates	363,700.
(3)	
(4)	
(5)	
(6)	
(7)	
(8)	
(9)	
(10)	
(11)	
Total. (Column (b) must equal Form 990, Part X, col (B) line 25.) ▶	

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

FIN 48 (ASC 740)

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

1	Total revenue (Form 990, Part VIII, column (A), line 12)	1	1,026,782.
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	1,304,918.
3	Excess or (deficit) for the year Subtract line 2 from line 1	3	-278,136.
4	Net unrealized gains (losses) on investments	4	634,824.
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV)	8	-66.
9	Total adjustments (net) Add lines 4 through 8	9	634,758.
10	Excess or (deficit) for the year per audited financial statements. Combine lines 3 and 9	10	356,622.

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

1	Total revenue, gains, and other support per audited financial statements	1	
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 must equal Form 990, Part I, line 12)	5	

Part XIII Reconciliation 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 must equal Form 990, Part I, line 18)	5	

Part XIV Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9; Part III, lines 1a and 4; Part IV, lines 1b and 2b; Part V, line 4; Part X, line 2; 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.

Part XI, Line 8 - Other Adjustments:

Rounding

-66.

Pt V Line 4 See attached Annual Report

Department of the Treasury
Internal Revenue Service

Complete if the organization answered "Yes" to Form 990, Part IV, lines 17, 18, or 19, or if the organization entered more than \$15,000 on Form 990-EZ, line 6a.
▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2011

Open To Public Inspection

Tuality Healthcare Foundation

Employer identification number
93-0751507

Part I

Fundraising Activities. Complete if the organization answered "Yes" to Form 990, Part IV, line 17 Form 990-EZ filers are not required to complete this part.

- a ☐ Mail solicitations
- b ☐ Internet and email solicitations
- c ☐ Phone solicitations
- d ☐ In-person solicitations
- e ☐ Solicitation of non-government grants
- f ☐ Solicitation of government grants
- g ☐ Special fundraising events

- ☐
- Yes
- ☐
- No

- b** If "Yes," list the ten highest paid individuals or entities (fundraisers) pursuant to agreements under which the fundraiser is to be compensated at least \$5,000 by the organization

(i) Name and address of individual or entity (fundraiser)	(ii) Activity	(iii) Did fundraiser have custody or control of contributions?		(iv) Gross receipts from activity	(v) Amount paid to (or retained by) fundraiser listed in col (i)	(vi) Amount paid to (or retained by) organization
		Yes	No			
Total						

- 3** List all states in which the organization is registered or licensed to solicit contributions or has been notified it is exempt from registration or licensing.

Part II Fundraising Events. Complete if the organization answered "Yes" to Form 990, Part IV, line 18, or reported more than \$15,000 of fundraising event contributions and gross income on Form 990-EZ, lines 1 and 6b. List events with gross receipts greater than \$5,000.

		(a) Event #1	(b) Event #2	(c) Other events	(d) Total events (add col. (a) through col. (c))
		Salud Auction (event type)	Dinner Dance (event type)	1 (total number)	
Revenue	1 Gross receipts	674,002.	58,944.	81,717.	814,663.
	2 Less: Charitable contributions	461,724.	28,293.	4,399.	494,416.
	3 Gross income (line 1 minus line 2)	212,278.	30,651.	77,318.	320,247.
Direct Expenses	4 Cash prizes				
	5 Noncash prizes				
	6 Rent/facility costs				
	7 Food and beverages				
	8 Entertainment				
	9 Other direct expenses	172,177.	27,403.	21,364.	220,944.
	10 Direct expense summary. Add lines 4 through 9 in column (d)				(220,944)
	11 Net income summary. Combine line 3, column (d), and line 10				99,303.

Part III Gaming. Complete if the organization answered "Yes" to Form 990, Part IV, line 19, or reported more than \$15,000 on Form 990-EZ, line 6a

		(a) Bingo	(b) Pull tabs/instant bingo/progressive bingo	(c) Other gaming	(d) Total gaming (add col. (a) through col. (c))
Revenue	1 Gross revenue				
Direct Expenses	2 Cash prizes				
	3 Noncash prizes				
	4 Rent/facility costs				
	5 Other direct expenses				
	6 Volunteer labor	☐ Yes _____ % ☐ No	☐ Yes _____ % ☐ No	☐ Yes _____ % ☐ No	
	7 Direct expense summary. Add lines 2 through 5 in column (d)				()
	8 Net gaming income summary. Combine line 1, column d, and line 7				

9 Enter the state(s) in which the organization operates gaming activities _____

a Is the organization licensed to operate gaming activities in each of these states? ☐ Yes ☐ No

b If "No," explain: _____

10a Were any of the organization's gaming licenses revoked, suspended or terminated during the tax year? ☐ Yes ☐ No

b If "Yes," explain: _____

- 11 Does the organization operate gaming activities with nonmembers? ☐ Yes ☐ No
- 12 Is the organization a grantor, beneficiary or trustee of a trust or a member of a partnership or other entity formed to administer charitable gaming? ☐ Yes ☐ No
- 13 Indicate the percentage of gaming activity operated in.
- | | | |
|-------------------------------|-----|---|
| a The organization's facility | 13a | % |
| b An outside facility | 13b | % |
- 14 Enter the name and address of the person who prepares the organization's gaming/special events books and records

Name ► _____

Address ► _____

- 15a Does the organization have a contract with a third party from whom the organization receives gaming revenue?
- ☐
- Yes
- ☐
- No

b If "Yes," enter the amount of gaming revenue received by the organization ► \$ _____ and the amount of gaming revenue retained by the third party ► \$ _____

c If "Yes," enter name and address of the third party

Name ► _____

Address ► _____

16 Gaming manager information

Name ► _____

Gaming manager compensation ► \$ _____

Description of services provided ► _____

☐ Director/officer☐ Employee☐ Independent contractor

17 Mandatory distributions

a Is the organization required under state law to make charitable distributions from the gaming proceeds to retain the state gaming license? ☐ Yes ☐ No

b Enter the amount of distributions required under state law to be distributed to other exempt organizations or spent in the organization's own exempt activities during the tax year ► \$ _____

Part IV **Supplemental Information.** Complete this part to provide the explanations required by Part I, line 2b, columns (iii) and (v), and Part III, lines 9, 9b, 10b, 15b, 15c, 16, and 17b, as applicable. Also complete this part to provide any additional information (see instructions).

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.
Part III can be duplicated 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
Education Scholarships	58	38,591.	0.		

Part IV Supplemental Information. Complete this part to provide the information required in Part I, line 2, and any other additional information.**Schedule I, Part I, Line 2: Internal records document the supported**

organization's use of funds.

**SCHEDULE J
(Form 990)**

Department of the Treasury
Internal Revenue Service

Compensation Information

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

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

▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization

Tuality Healthcare Foundation

Employer identification number

93-0751507

Part I Questions Regarding Compensation

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

- | | |
|--|--|
| ☐ First-class or charter travel | ☐ Housing allowance or residence for personal use |
| ☐ Travel for companions | ☐ Payments for business use of personal residence |
| ☐ Tax indemnification and gross-up payments | ☐ Health or social club dues or initiation fees |
| ☐ Discretionary spending account | ☐ Personal services (e.g., maid, chauffeur, chef) |

b If any of the boxes on line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all of the expenses described above? If "No," complete Part III to explain

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?

3 Indicate which, if any, of the following the filing organization used to establish the compensation of the organization's CEO/Executive Director. Check all that apply. Do not check any boxes for methods used by a related organization to establish compensation of the CEO/Executive Director. Explain in Part III.

- | | |
|--|--|
| ☐ Compensation committee | ☐ Written employment contract |
| ☐ Independent compensation consultant | ☐ Compensation survey or study |
| ☐ Form 990 of other organizations | ☐ Approval by the board or compensation committee |

4 During the year, did any person listed in Form 990, Part VII, Section A, line 1a, with respect to the filing organization or a related organization

- a** Receive a severance payment or change-of-control payment?
- b** Participate in, or receive payment from, a supplemental nonqualified retirement plan?
- c** Participate in, or receive payment from, an equity-based compensation arrangement?

If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III.

Only section 501(c)(3) and 501(c)(4) organizations 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?
- b** Any related organization?
- 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?
- b** Any related organization?
- 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

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 Regulations section 53.4958-4(a)(3)? If "Yes," describe in Part III

9 If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53.4958-6(c)?

	Yes	No
1b		
2		
4a		X
4b	X	
4c		X
5a		X
5b		X
6a		X
6b		X
7		X
8		X
9		

LHA For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Schedule J (Form 990) 2011

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

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

Note. The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, applicable column (D) and (E) amounts for that individual.

(A) Name	(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported as deferred in prior Form 990
	(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
1 RICHARD STENSON	(i)	0.	0.	0.	0.	0.	0.
	(ii)	391,482.	0.	24,000.	38,500.	453,982.	0.
2 TIM FLEISCHMANN	(i)	0.	0.	0.	0.	0.	0.
	(ii)	189,392.	0.	0.	38,500.	227,892.	0.
3	(i)						
	(ii)						
4	(i)						
	(ii)						
5	(i)						
	(ii)						
6	(i)						
	(ii)						
7	(i)						
	(ii)						
8	(i)						
	(ii)						
9	(i)						
	(ii)						
10	(i)						
	(ii)						
11	(i)						
	(ii)						
12	(i)						
	(ii)						
13	(i)						
	(ii)						
14	(i)						
	(ii)						
15	(i)						
	(ii)						
16	(i)						
	(ii)						

Part III Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II. Also complete this part for any additional information

Part I, Line 4b: Richard Stenson - \$24,000 paid in the fiscal year
ended 9/30/2012

Part I, Line 4b: Under the plan, Tuality Healthcare is obligated to
contribute vested accrued benefits to the participant's plan account.
Contributions to the participant's plan account are made on a monthly basis
at an amount equal to two thousand dollars per month.

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 990-EZ 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

Tuality Healthcare Foundation

Employer identification number
93-0751507

Form 990, Part I, Line 1, Description of Organization Mission:

The mission of the Tuality Healthcare Foundation is to acquire and manage philanthropic contributions. We direct these funds to medical and health education projects and programs that we believe will advance our community's physical and mental quality of life. The Tuality Healthcare Foundation exists to support and assist Tuality Healthcare in fulfilling its mission of building a healthier community.

Form 990, Part III, Line 1, Description of Organization Mission:

mental quality of life. The Tuality Healthcare Foundation exists to support and assist Tuality Healthcare in fulfilling its mission of building a healthier community.

Form 990, Part VI, Section A, line 6: Tuality Health Care is the sole memeber designated as the "Corporate Member" of Tuality Healthcare Foundation.

Form 990, Part VI, Section A, line 7a: The Tuality Healthcare Board of Directors approves Directors appointed to the Tuality Healthcare Foundation Board.

Form 990, Part VI, Section A, line 7b: Upon request of the Board and such other times as the Corporate Member may elect, the Corporate Member shall review the affairs Tuality Healthcare Foundation and take such action as it deems appropriate in accordance with Tuality Healthcare Foundation's

Name of the organization

Tuality Healthcare Foundation

Employer identification number

93-0751507

bylaws.

Form 990, Part VI, Section B, line 11: A copy of the 990 is reviewed by Tuality Hospital's Chief Financial Officer. Then it is presented to the Tuality Foundation Board of Directors prior to the filing of the 990.

Form 990, Part VI, Section B, Line 12c: The organization regularly and consistently monitors and enforces compliance with the conflict of interest policy by making it part of the employee's annual review. Board members are also required to review the policy annually. All afore said parties are required to certify that they have read the conflict of interest policy, have disclosed any potential conflicts of interest, and agree to immediately notify the Compliance Officer if a conflict should arise. Corrective actions are to be taken immediately to address any conflicts of interest.

Form 990, Part VI, Section B, Line 15: An independent board of directors is responsible for determining the compensation of CEOs, executive directors, officers, and key employees. Compensation is reviewed annually. Comparability data is taken into consideration in setting compensation.

Form 990, Part VI, Section C, Line 19: The organization's tax returns are made available for public inspection on the following website: Guidestar.org. Governing documents are made available upon written request to the Chief Financial Officer of Tuality Healthcare.

Form 990, Part XI, line 5, Changes in Net Assets:

Net unrealized gains on investments:

634,824.

Name of the organization

Tuality Healthcare Foundation

Employer identification number

93-0751507

Rounding

-66.

Total to Form 990, Part XI, Line 5

634,758.

Tuality Healthcare's board of directors and officers of the organization are responsible for overseeing the financial audit and choosing qualified auditors.

Part V Transactions With Related Organizations (Complete if the organization answered "Yes" to 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 of this schedule.

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 or (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)

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) Tuality Healthcare, Inc.	B	1,257,900.Cash	
(2) Tuality Healthcare, Inc.	N	345,322.Actual Cost	
(3)			
(4)			
(5)			
(6)			

Part VII Supplemental Information

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

- If you are filing for an **Additional (Not Automatic) 3-Month Extension**, complete only **Part II** and check this box ☒ **X**

Note. Only complete Part II if you have already been granted an automatic 3-month extension on a previously filed Form 8868.

- If you are filing for an **Automatic 3-Month Extension**, complete only **Part I** (on page 1).

Part II Additional (Not Automatic) 3-Month Extension of Time. Only file the original (no copies needed).

Enter filer's identifying number, see instructions

Type or print File by the due date for filing your return. See instructions	Name of exempt organization or other filer, see instructions	Employer identification number (EIN) or
	Tuality Healthcare Foundation	☒ 93-0751507
	Number, street, and room or suite no. If a P.O. box, see instructions.	Social security number (SSN)
	334 SE Eighth Avenue	☐
	City, town or post office, state, and ZIP code. For a foreign address, see instructions.	
	Hillsboro, OR 97123	

Enter the Return code for the return that this application is for (file a separate application for each return)

01

Application Is For	Return Code	Application Is For	Return Code
Form 990	01		
Form 990-BL	02	Form 1041-A	08
Form 990-EZ	01	Form 4720	09
Form 990-PF	04	Form 5227	10
Form 990-T (sec. 401(a) or 408(a) trust)	05	Form 6069	11
Form 990-T (trust other than above)	06	Form 8870	12

STOP! Do not complete Part II if you were not already granted an automatic 3-month extension on a previously filed Form 8868.

Tim Fleischmann - TUALITY HEALTHCAR

- The books are in the care of **335 SE EIGHTH AVENUE - HILLSBORO, OR 97123**

Telephone No **503-681-1570**

FAX No.

- If the organization does not have an office or place of business in the United States, check this box ☐
- If this is for a Group Return, enter the organization's four digit Group Exemption Number (GEN) . If this is for the whole group, check this box ☐. If it is for part of the group, check this box ☐ and attach a list with the names and EINs of all members the extension is for.

- 4 I request an additional 3-month extension of time until **August 15, 2013**.
- 5 For calendar year , or other tax year beginning **OCT 1, 2011**, and ending **SEP 30, 2012**.
- 6 If the tax year entered in line 5 is for less than 12 months, check reason. ☐ Initial return ☐ Final return
☐ Change in accounting period
- 7 State in detail why you need the extension
Additional time is required to gather all of the information necessary to file a complete and accurate return.

8a	If this application is for Form 990-BL, 990-PF, 990-T, 4720, or 6069, enter the tentative tax, less any nonrefundable credits. See instructions.	8a	\$	0.
b	If this application is for Form 990-PF, 990-T, 4720, or 6069, enter any refundable credits and estimated tax payments made. Include any prior year overpayment allowed as a credit and any amount paid previously with Form 8868.	8b	\$	0.
c	Balance due. Subtract line 8b from line 8a. Include your payment with this form, if required, by using EFTPS (Electronic Federal Tax Payment System). See instructions.	8c	\$	0.

Signature and Verification must be completed for Part II only.

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete, and that I am authorized to prepare this form.

Signature **Jenny T. Hellebrand** Title **CPA**

Date **5/7/13**

Financial Statements

TUALITY HEALTHCARE

SEPTEMBER 30, 2012 and 2011

TUALITY HEALTHCARE

September 30, 2012

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Dr. Darell Lumaco	Chairperson
Mr. Mark Rosenbaum	Vice-Chairperson
Mr. Michael Hundley	Secretary/Treasurer

TUALITY HEALTHCARE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Tuality Healthcare
Hillsboro, Oregon

We have audited the consolidated balance sheets of Tuality Healthcare as of September 30, 2012 and 2011 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information on pages 39 through 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Fordham Goodfellow, LLP

January 23, 2013
Hillsboro, Oregon

Independent Member

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TUALITY HEALTHCARE
CONSOLIDATED BALANCE SHEETS
As of September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 15,728,100	\$ 14,666,600
Short-term investments	18,713,000	18,471,700
Patient accounts receivable, net of allowance for uncollectible accounts of \$9,740,400 and \$7,796,200	22,011,800	21,995,600
Other receivables	4,383,200	2,884,200
Inventory of supplies	2,911,300	2,799,100
Prepaid expenses and other	2,083,200	2,251,000
Current portion of assets whose use is limited	4,787,200	4,239,700
Total current assets	<u>70,617,800</u>	<u>67,307,900</u>
ASSETS WHOSE USE IS LIMITED		
Board designated funds	21,776,400	19,733,200
Under bond indenture agreement - held by Trustee	5,578,800	8,238,100
Donor restricted - specific purpose	3,226,200	1,493,900
Donor restricted - endowment	2,526,400	2,516,600
Required for current liabilities	(4,787,200)	(4,239,700)
Total assets whose use is limited	<u>28,320,600</u>	<u>27,742,100</u>
PROPERTY AND EQUIPMENT		
Property and equipment net of accumulated depreciation and amortization	<u>41,084,900</u>	<u>41,798,700</u>
OTHER ASSETS		
Other receivables - noncurrent	1,471,600	4,100
Investments	2,981,100	2,581,400
Held by Trustee - deferred compensation plan	836,900	680,700
Deferred costs and other	749,200	838,800
Intangible assets	2,030,700	2,077,000
Goodwill	100,000	100,000
Total other assets	<u>8,169,500</u>	<u>6,282,000</u>
	<u>\$ 148,192,800</u>	<u>\$ 143,130,700</u>

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

TUALITY HEALTHCARE

CONSOLIDATED BALANCE SHEETS (CONTINUED)

As of September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 10,452,900	\$ 9,479,400
Accrued payroll and employee benefits	9,683,000	9,006,300
Estimated liabilities for Medicare and Medicaid settlements	(148,200)	1,065,500
Long-term debt due within one year	5,549,100	4,701,500
Accrued bond interest payable	467,200	534,300
Total current liabilities	<u>26,004,000</u>	<u>24,787,000</u>
LONG-TERM LIABILITIES		
Long-term debt, net of amount due within one year	15,753,000	19,774,000
Liability for pension benefits	32,502,900	27,362,600
Other long-term liabilities	2,290,900	-
Total long-term liabilities	<u>50,546,800</u>	<u>47,136,600</u>
TOTAL LIABILITIES	<u>76,550,800</u>	<u>71,923,600</u>
NET ASSETS		
Unrestricted	65,813,700	67,148,300
Temporarily restricted by donors	3,301,900	1,542,200
Permanently restricted by donors	2,526,400	2,516,600
Total net assets	<u>71,642,000</u>	<u>71,207,100</u>
	<u>\$ 148,192,800</u>	<u>\$ 143,130,700</u>

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

TUALITY HEALTHCARE

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
NET PATIENT SERVICE REVENUE		
Patient service revenue (net of contractual allowances and discounts)	\$ 171,375,800	\$ 172,486,300
Provision for bad debts	<u>(15,292,000)</u>	<u>(15,401,400)</u>
Total net patient service revenue	156,083,800	157,084,900
OTHER REVENUE	11,636,400	6,922,000
Total revenue	<u>167,720,200</u>	<u>164,006,900</u>
OPERATING EXPENSES		
Salaries and wages	77,873,500	75,031,500
Employee benefits	21,610,600	20,383,800
Supplies and other expenses	54,881,300	51,909,600
Professional fees	3,050,300	3,290,600
Depreciation	8,641,300	8,485,300
Interest	<u>1,367,300</u>	<u>1,569,800</u>
Total operating expenses	167,424,300	160,670,600
INCOME FROM OPERATIONS	<u>295,900</u>	<u>3,336,300</u>
OTHER INCOME		
Realized income on investments whose use is limited by board designation	765,600	614,400
Gain (loss) on investments in affiliated companies	337,300	357,900
Gain (loss) on disposal of property and equipment	<u>8,800</u>	<u>270,000</u>
Total other income	1,111,700	1,242,300
REVENUE IN EXCESS OF EXPENSES	1,407,600	4,578,600
Contributions for property and equipment acquisition	442,900	466,500
Change in net unrealized gain (loss) on other than trading securities	1,284,000	(534,200)
Pension-related changes	<u>(4,469,100)</u>	<u>(10,448,100)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ (1,334,600)</u>	<u>\$ (5,937,200)</u>

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

TUALITY HEALTHCARE

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
UNRESTRICTED NET ASSETS		
Revenue in excess of expenses	\$ <u>1,407,600</u>	\$ <u>4,578,600</u>
Contributions for property and equipment acquisition	442,900	466,500
Change in net unrealized gain (loss) on other than trading securities	1,284,000	(534,200)
Pension-related changes	<u>(4,469,100)</u>	<u>(10,448,100)</u>
Increase (decrease) in unrestricted net assets	<u>(1,334,600)</u>	<u>(5,937,200)</u>
 TEMPORARILY RESTRICTED NET ASSETS		
Gifts, grants and bequests	2,159,000	913,100
Investment income (loss)	688,300	(27,100)
Net assets released from restrictions	<u>(1,087,600)</u>	<u>(1,367,000)</u>
Increase (decrease) in temporarily restricted net assets	<u>1,759,700</u>	<u>(481,000)</u>
 PERMANENTLY RESTRICTED NET ASSETS		
Contributions for endowment funds	<u>9,800</u>	<u>85,900</u>
Increase (decrease) in permanently restricted net assets	<u>9,800</u>	<u>85,900</u>
 INCREASE (DECREASE) IN NET ASSETS	434,900	(6,332,300)
 NET ASSETS, beginning of year	<u>71,207,100</u>	<u>77,539,400</u>
 NET ASSETS, end of year	<u><u>\$ 71,642,000</u></u>	<u><u>\$ 71,207,100</u></u>

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

TUALITY HEALTHCARE

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES AND GAINS AND LOSSES		
Change in net assets	\$ 434,900	\$ (6,332,300)
Adjustments to reconcile change in net assets to net cash provided by operating activities and gains and losses:		
Depreciation and amortization	8,641,300	8,485,300
Amortization of finance costs	16,900	16,900
Provision for bad debts	15,292,000	15,401,400
Net realized and unrealized loss on investments	(2,742,900)	456,200
Gain on investment in affiliated companies	(337,400)	(357,800)
(Gain) loss on sale of assets	(8,800)	(270,000)
Restricted contributions and investment income received	(2,857,100)	(971,900)
Changes in:		
Accounts receivable	(18,274,700)	(14,021,400)
Inventories	(112,200)	(6,100)
Prepaid expenses and other	257,400	195,000
Accounts payable	3,264,400	(28,400)
Accrued payroll and employee benefits	5,817,000	9,017,200
Estimated liabilities for Medicare and Medicaid settlements	(1,213,700)	(56,200)
Accrued bond interest	(67,100)	(62,600)
Net cash provided by operating activities and gains and losses	<u>8,110,000</u>	<u>11,465,300</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(6,130,700)	(4,001,100)
Proceeds from sales of property and equipment	21,900	759,900
Purchases of securities	(303,600)	(10,784,000)
Proceeds from sales of securities	1,460,700	2,423,100
Cash received from corporate joint venture (net of investments)	-	(179,900)
Net cash used by investing activities	<u>(4,951,700)</u>	<u>(11,782,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from restricted contributions and investment income	2,857,100	971,900
Principal payments on long-term debt	(4,953,900)	(4,584,900)
Net cash used by financing activities	<u>(2,096,800)</u>	<u>(3,613,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,061,500	(3,929,700)
CASH AND CASH EQUIVALENTS, beginning of year	<u>14,666,600</u>	<u>18,596,300</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 15,728,100</u>	<u>\$ 14,666,600</u>

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

TUALITY HEALTHCARE

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ <u>1,310,100</u>	\$ <u>1,467,300</u>
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment acquired through capital lease	\$ <u>1,763,600</u>	\$ <u>-</u>

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

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF ORGANIZATION AND ACCOUNTING POLICIES

Tuality Healthcare is a licensed 215-bed hospital and health services provider operating in Washington County, Oregon. The Company operates hospitals at two locations, Tuality Community Hospital in Hillsboro, Oregon, and Tuality Forest Grove Hospital in Forest Grove, Oregon. In addition to acute care hospital services, the Company provides a wide array of outpatient diagnostic and treatment services throughout western Washington County.

Tuality Healthcare is the parent company and sole member or stockholder of the following companies:

Tuality Management Systems, Inc. (TMSI), which owns taxable affiliated corporations and corporate joint ventures, including: Tuality Medical Equipment Supply (TMES) that sells and rents medical durable goods.

Tuality Property Management Co., holding title to certain hospital-related real estate and property acquired for future hospital expansion or investment.

Tuality Healthcare Foundation, Inc., a foundation established for charitable and educational purposes for the benefit of the Tuality Healthcare health care system.

The organizations are non-profit corporations under the laws of the State of Oregon, maintaining tax-exempt status, except for Tuality Management Systems, Inc., which is a for-profit, taxable corporation.

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of the Company and all majority-owned subsidiary companies. Subsidiaries in which the Company has less than a majority interest are generally accounted for by the equity method, which approximates the Company's equity in their underlying net book value. All significant intercompany accounts and transactions have been eliminated.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events:

Management has evaluated subsequent events through January 23, 2013, the date the financial statements were available to be issued.

Accounts receivable:

Accounts receivable are stated at unpaid balances (net of contractual allowances) and are reduced by an allowance for amounts that could become uncollectible in the future. Substantially all of the Company's receivables are related to providing healthcare services to its hospitals' patients.

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF ORGANIZATION AND ACCOUNTING POLICIES (Continued)

The Company estimates the allowance for doubtful accounts by reserving a percentage of all self-pay accounts receivable without regard to aging category, based on collection history, adjusted for expected recoveries and, if present, anticipated changes in trends. For all other non-self-pay payer categories, the Company reserves 100% of all accounts aging over 365 days from the date of discharge. The percentage used to reserve for all self-pay accounts is based on the Company's collection history. The Company collects substantially all of its third-party insured receivables, which include receivables from governmental agencies.

Collections are impacted by the economic ability of patients to pay and the effectiveness of the Company's collection efforts. Significant changes in payer mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the Company's collection of accounts receivable and the estimates of the collectability of future accounts receivable. The process of estimating the allowance for doubtful accounts requires the Company to estimate the collectability of self-pay accounts receivable, which is primarily based on its collection history, adjusted for expected recoveries and, if available, anticipated changes in collection trends. The Company also continually reviews its overall reserve adequacy by analyzing current period net revenue and admissions by payer classification, aged accounts receivable by payer, and days revenue outstanding.

The allowance for uncollectible accounts is decreased by charge-offs (net of recoveries). Accounts receivable are written off after collection efforts have been followed in accordance with the Company's policies.

Net patient service revenue:

Net patient service revenue is reported as the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Investments:

Gifts of investment property are reported at fair value at the date of receipt.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet.

The Company's investments in affiliated companies are reported on the equity method of accounting that approximates the Company's equity in the underlying net book value of affiliated companies. Short-term investments are stated at cost, which approximates market value.

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. Investment income (loss) on investments of donor-restricted funds are added to (deducted from) the appropriate restricted fund balance. Unrealized gains and losses on investments are excluded from the performance indicator unless the investments are trading securities.

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Statement of revenue and expenses:

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses.

Inventories:

Inventories, consisting of supplies, are valued at the lower of cost (first-in, first-out) or market.

Property and equipment:

Property and equipment are carried at cost. Any purchases of land, buildings, and equipment that have an expected useful life greater than one year and a cost greater than \$5,000 are capitalized. Refurbishments or improvements that extend the useful life of an existing asset are also capitalized subject to the same cost materiality threshold of \$5,000. Donated assets are carried at fair market value at date of donation. Leased assets under capital leases are carried at the present value of future lease payments. The carrying amounts of assets sold, retired, or otherwise disposed of and the related allowances for depreciation are eliminated from the accounts, and any resulting gain or loss is included in non-operating income or expense. Depreciation of property and equipment is provided by annual charges to expense on a straight-line basis over the expected useful lives of the assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The range of annual lives used in computing depreciation is as follows:

Buildings	10 - 50 years
Fixed equipment	15 - 20 years
Movable equipment	3 - 20 years

Intangible assets:

Intangible assets are recorded at cost and are amortized on a straight-line basis over the estimated useful life of the asset.

Goodwill:

Goodwill is not subject to amortization. Management tests goodwill for impairment on an annual basis. No adjustment for impairment was made for the years ended September 30, 2012 and 2011.

Federal and state income taxes:

The Company is a non-profit corporation and it is management's opinion that substantially none of its activities are subject to unrelated business income taxes. Certain subsidiaries, however, are subject to income taxes, although no significant amounts have been incurred to date.

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Cash and cash equivalents:

For purposes of the statement of cash flows, the Company considers all highly liquid short-term investments with maturities of three months or less, at date of purchase or acquisition, to be cash equivalents except for assets whose use is limited.

Estimated malpractice claims:

The Company purchases professional and general liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Company accrues an estimate of the ultimate costs for both reported claims and claims incurred but not reported as well as an estimate of expected insurance reimbursements.

Temporarily and permanently restricted net assets:

Temporarily restricted net assets are those whose use by the Company has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Company in perpetuity.

Donor-restricted funds:

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

Income from operations:

Income from operations includes income from provision of patient services as well as other revenue consisting primarily of management fees, rental income, and realized investment income on other than board designated assets. Income from operations excludes certain items that the Company deems to be outside the scope of its primary business.

Excess of revenues over expenses:

This statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Unamortized bond issue costs:

Costs totaling \$800,300 associated with the Refunding Bonds, Series 2004 and costs totaling \$885,000 associated with Hospital Revenue Bonds, Series 2001 have been capitalized and are amortized over the bond redemption period.

Other deferred costs are being amortized on a straight-line basis over their estimated useful lives.

Advertising:

The Company follows the policy of charging the cost of advertising to expense as incurred. Advertising expense was \$279,700 and \$379,200 for the years ended September 30, 2012 and 2011, respectively.

Reclassifications:

Certain amounts reported in the prior year financial statements have been changed to conform to the 2012 presentation.

Recently adopted accounting standards:

In August 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-23, *Health Care Entities (Topic 954) – Measuring Charity Care for Disclosure* (ASU 2010-23). The objective of ASU 2010-23 is to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. The ASU requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. The ASU also requires disclosure of the method used to identify or determine such costs. ASU 2010-23 became effective for the Company on October 1, 2011. The adoption of this standard did not have a material effect on the Company's financial statements.

In August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities (Topic 954) – Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24). The objective of ASU 2010-24 is to reduce diversity in practice related to the accounting for medical malpractice claims and similar liabilities and related anticipated insurance recoveries. The ASU clarifies that health care entities should not net insurance recoveries against a related claim liability and that the amount of the claim liability should be determined without consideration of insurance recoveries. ASU 2010-24 became effective for the Company on October 1, 2011. The adoption of this standard did not have a material effect on the Company's financial statements.

In July of 2011, the FASB issued ASU No. 2011-07, *Health Care Entities (Topic 954) – Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07). The objective of ASU 2011-07 is to provide financial statement users with greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. The ASU requires health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. The ASU also requires

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Recently adopted accounting standards: (continued)

enhanced disclosure about policies for recognizing revenue and assessing bad debts, disclosures of patient service revenue, and qualitative and quantitative information about changes in the allowance for doubtful accounts. ASU 2011-07 was adopted by the Company effective October 1, 2011. The adoption of this standard did not have a material effect on the Company's financial statements.

NOTE 2: INVESTMENTS

Assets whose use is limited:

The Board of Directors has limited the use of certain assets by designation for the specific purpose of facilities expansion, renovation and equipment acquisitions. Other assets are held in Trust under bond indenture agreements. The use of certain assets is restricted by donors for specific purposes or permanent endowment. The composition of assets whose use is limited at September 30, 2012 and 2011, is set forth in the following table. Investments are shown at estimated fair value at September 30 of each year.

	<u>2012</u>	<u>2011</u>
Board Designated Funds		
Cash and short-term investments	\$ 52,300	\$ 7,500
Accrued interest and dividends	-	-
U.S. Government obligations	-	-
Corporate notes and bonds	11,236,900	12,598,000
Marketable equity securities	5,365,800	5,183,100
Interest in limited partnerships	5,121,400	1,944,600
	<u>\$ 21,776,400</u>	<u>\$ 19,733,200</u>
Under Bond Indenture Agreement		
Cash and short-term investments	<u>\$ 5,578,800</u>	<u>\$ 8,238,100</u>
	<u>2012</u>	<u>2011</u>
Donor Restricted - Specific Purpose		
Cash and short-term investments	\$ 1,256,900	\$ 50,700
Common trust funds	1,969,300	1,443,200
	<u>\$ 3,226,200</u>	<u>\$ 1,493,900</u>
Donor Restricted - Endowment		
Common trust funds	<u>\$ 2,526,400</u>	<u>\$ 2,516,600</u>

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2: INVESTMENTS (Continued)

Other investments:

Short-term investments consist of the following at September 30,

	<u>2012</u>	<u>2011</u>
Mutual Funds	\$ 17,939,700	\$ 17,221,600
Common trust funds - unrestricted	773,300	1,250,100
	<u>\$ 18,713,000</u>	<u>\$ 18,471,700</u>

Donor restricted and unrestricted funds include investments in common trust funds. Common trust fund investments consisted of the following at September 30,

	<u>2012</u>	<u>2011</u>
Long-term investment pool (includes endowment funds)		
Cash and cash equivalents	\$ 114,000	\$ 160,600
Equity securities	3,121,700	2,499,900
Fixed income securities	2,033,300	1,864,300
	<u>\$ 5,269,000</u>	<u>\$ 4,524,800</u>
Short-term investment pool		
Cash and cash equivalents	\$ -	\$ 323,200
Fixed income securities	-	361,900
	<u>\$ -</u>	<u>\$ 685,100</u>

Non-current investments consist of the following at September 30,

	<u>2012</u>	<u>2011</u>
Equity interest in Tuality/OHSU Cancer Center	\$ 1,276,800	\$ 1,177,800
Tuality Health Alliance, at cost	250,000	250,000
Minority and other interests in partnerships	1,454,300	1,153,600
	<u>\$ 2,981,100</u>	<u>\$ 2,581,400</u>

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2: INVESTMENTS (Continued)

Other equity investments recorded using the equity method of accounting include the following:

	2012		2011	
	% of Ownership	Investments	% of Ownership	Investments
Raines Dialysis Center	40.0%	\$ 870,600	40.0%	\$ 632,200
Northwest Hospital Partnership, Inc.	50.0%	211,200	50.0%	211,200
Mountain States Healthcare	5.0%	310,200	5.0%	310,200
Health Share of Oregon	-	62,300	-	-
		<u>\$ 1,454,300</u>		<u>\$ 1,153,600</u>

Tuality/OHSU Cancer Center – The Company owns a 50% equity interest in Tuality/OHSU Cancer Center (TOCC), an Oregon Limited Liability Company operating a radiation treatment center. The Company made this investment in February 2001, and accounts for the investment under the equity method.

Tuality Healthcare charged TOCC management fees of \$742,700 and \$719,300 for 2012 and 2011, respectively. Management fees receivable was \$1,400 at September 30, 2012, and management fees overpayment was \$8,400 at September 30, 2011.

TOCC leases its building on a month-to-month basis from the Company. Monthly rent payments are \$8,419. Total rents received on this property amounted to \$101,000 for the years ended September 30, 2012 and 2011.

Summarized financial information from the unaudited financial statements of TOCC is as follows:

	Tuality/OHSU Cancer Center	
	2012	2011
Current assets	\$ 2,471,200	\$ 2,358,100
Non-current assets	611,500	308,400
Current liabilities	96,900	113,500
Non-current liabilities	432,200	197,400
Partners' equity	2,553,600	2,355,600
Revenues	\$ 2,145,600	\$ 2,216,600
Net income (loss)	197,600	322,200

Tuality Health Alliance - The Company contributed initial capital of \$250,000 to Tuality Health Alliance (the Alliance), an Oregon taxable, not-for-profit corporation organized to create an association of hospitals and physicians to coordinate the delivery of comprehensive, affordable, quality integrated healthcare services to communities served by the incorporator's hospital and physician members as well as other corporate purposes. Tuality Healthcare has a 33-1/3% representation on the board of the Alliance and is carrying their contribution as an investment at \$250,000 (the cost of the initial capital contribution).

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2: INVESTMENTS (Continued)

Tuality Healthcare charged the Alliance management fees of \$2,944,200 and \$2,821,900 for 2012 and 2011, respectively. Management fees receivable were \$73,600 and \$70,700 at September 30, 2012 and 2011, respectively.

The Alliance members provide medical care under the Oregon Health Plan (OHP) to certain patients who qualify under criteria established by the State of Oregon. The agreement under which these services are provided requires the Alliance to maintain certain levels of net worth. Based on interim financial statements for the nine months ended September 30, 2012, management believes the net worth requirements have been met.

The following table summarizes investment income and gains and losses for assets limited as to use, cash equivalents and other investments for the year ending September 30, 2012:

	Unrestricted	Temporarily Restricted	Total
Interest and dividend income	\$ 1,010,600	\$ 104,900	\$ 1,115,500
Net realized and unrealized gains (losses)	875,500	583,400	1,458,900
Gain (loss) on investments in affiliated companies	337,300	-	337,300
Total investment income	<u>2,223,400</u>	<u>688,300</u>	<u>2,911,700</u>
Other changes in unrestricted net assets:			
Change in net unrealized gain (loss) on other than trading securities	1,284,000	-	1,284,000

The following table summarizes investment income and gains and losses for assets limited as to use, cash equivalents and other investments for the year ending September 30, 2011:

	Unrestricted	Temporarily Restricted	Total
Interest and dividend income	\$ 1,000,900	\$ 46,400	\$ 1,047,300
Net realized and unrealized gains (losses)	5,800	(73,400)	(67,600)
Gain (loss) on investments in affiliated companies	357,900	-	357,900
Total investment income	<u>1,364,600</u>	<u>(27,000)</u>	<u>1,337,600</u>
Other changes in unrestricted net assets:			
Change in net unrealized gain (loss) on other than trading securities	(534,300)	-	(534,300)

Investment income on board designated funds is included in non-operating activities on the statement of operations. All other investment income is included in operating activities.

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2: INVESTMENTS (Continued)

Investment expenses were \$97,800 and \$92,500 for the years ending September 30, 2012 and 2011, respectively.

Investments made by the Tuality Healthcare Foundation shall be managed in accordance with the laws of the State of Oregon, and in ways that maximize overall return on investment with minimal risk to the investment, while promoting stability, flexibility, diversification, and liquidity. The Foundation is the recipient of many donor-restricted gifts, the expenditure of which occurs over time for a variety of charitable purposes. These funds, in addition to miscellaneous unrestricted funds, shall not be pooled with the endowed funds for investment purposes, as the investment objectives for these funds differ from the long-term objective of the endowed funds. These funds will be individually accounted for and will accrue pro-rata investment income until the principal amounts are distributed for their specific purposes. Non-endowed funds shall be invested in a combination of bonds and cash, with the goal of exposing the funds to very low risk. For non-endowed funds, any bonds held will be subject to limited maturity (three years). It is the Foundation's intention to hold these bonds to maturity whenever possible.

The Foundation will spend up to six percent of a three-year moving average of the total market value of the endowment assets annually to support community education programs and specific scholarships as designated by the various endowments. For purposes of determining the amount available to spend, the average will be calculated from the market value of the endowments on June 30 of each year.

NOTE 3: FAIR VALUE MEASUREMENTS

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- 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 are unobservable inputs for the asset or liability.

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

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3: FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets measured on a recurring basis at September 30, 2012 are as follows:

		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)
	<u>Fair Value</u>			
Short term investments				
Cash and cash equivalents	\$ 16,700	\$ 16,700	\$ -	\$ -
Equity securities	458,100	458,100	-	-
Fixed income securities	10,858,900	10,858,900	-	-
Municipal income securities	7,379,200	7,379,200	-	-
Assets whose use is limited				
Board designated funds				
Cash and cash equivalents	52,300	52,300	-	-
Equity securities	5,365,800	5,365,800	-	-
Fixed income securities	11,236,900	11,236,900	-	-
Interest in limited partnership	5,121,400	-	5,121,400	-
Under bond indenture				
Cash and cash equivalents	5,578,800	5,578,800	-	-
Donor restricted				
Cash and cash equivalents	1,354,200	1,354,200	-	-
Equity securities	2,663,600	2,663,600	-	-
Fixed income securities	1,734,900	-	1,734,900	-
Non-current investments				
Equity and cost investments	2,981,100	-	-	2,981,100
Held by employee benefit trust				
Cash and cash equivalents	500	500	-	-
Equity securities	789,300	789,300	-	-
Fixed income securities	47,100	47,100	-	-
	<u>\$ 55,638,800</u>	<u>\$ 45,801,400</u>	<u>\$ 6,856,300</u>	<u>\$ 2,981,100</u>

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3: FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets measured on a recurring basis at September 30, 2011 are as follows:

		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)
	Fair Value			
Short term investments				
Cash and cash equivalents	\$ 116,100	\$ 116,100	\$ -	\$ -
Equity securities	599,800	599,800	-	-
Fixed income securities	10,467,900	10,467,900	-	-
Municipal income securities	7,287,900	7,287,900	-	-
Assets whose use is limited				
Board designated funds				
Cash and cash equivalents	7,400	7,400	-	-
Equity securities	5,183,100	5,183,100	-	-
Fixed income securities	12,598,100	12,598,100	-	-
Interest in limited partnership	1,944,600	-	1,944,600	-
Under bond indenture				
Cash and cash equivalents	8,238,100	8,238,100	-	-
Donor restricted				
Cash and cash equivalents	418,400	418,400	-	-
Equity securities	1,900,100	1,900,100	-	-
Fixed income securities	1,692,000	-	1,692,000	-
Non-current investments				
Equity and cost investments	2,581,400	-	-	2,581,400
Held by employee benefit trust				
Cash and cash equivalents	400	400	-	-
Equity securities	643,300	643,300	-	-
Fixed income securities	37,000	37,000	-	-
	<u>\$ 53,715,600</u>	<u>\$ 47,497,600</u>	<u>\$ 3,636,600</u>	<u>\$ 2,581,400</u>

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3: FAIR VALUE MEASUREMENTS (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>Non-Current Investments</u>
Balance at October 1, 2010	\$ 2,043,700
Total realized and unrealized (losses) gains, net:	
Included in income	357,800
Included in net assets	-
Purchases, issuance, and settlement, (net)	179,900
Transfers in and/or out of Level 3 (net)	-
Balance at October 1, 2011	\$ 2,581,400
Total realized and unrealized (losses) gains, net:	
Included in income	337,400
Included in net assets	-
Purchases	62,300
Transfers in and/or out of Level 3 (net)	-
Balance at September 30, 2012	\$ <u>2,981,100</u>
Total gains or losses for 2012 included in income attributable to the change in unrealized gains (or losses) relating to assets held at September 30, 2012	\$ <u>337,400</u>

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Fair value for assets valued using Level 3 inputs are based on the Company's assumptions about assumptions that market participants would use in pricing assets.

For long-term debt, the fair value is estimated based on the discounted value of the future cash flows using the estimates of the Company's borrowing rates. The carrying value and fair value of long-term debt was \$21,302,100 and \$24,648,500, respectively, as of September 30, 2012 and \$24,475,500 and \$26,803,200, respectively, as of September 30, 2011.

The carrying amount of other financial instruments approximates fair value because these items mature in less than one year.

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4: COMMUNITY BENEFITS

The Company's mission is to provide quality health care services and leadership in promoting health improvement to all persons in its service area on a non-discriminatory basis and without regard to ability to pay. The Company recognizes that not all individuals possess the ability to purchase essential medical services and that its mission includes serving the community with respect to providing health care service and health care education. In keeping with its commitment to serve all members of its community, the following are considered in the context of the individual's ability to pay and/or community need:

- free and /or subsidized care,
- care provided to persons covered by governmental programs at below charges, and
- health activities and programs to support the community

These activities include wellness programs, community education programs, health screenings, special programs for the elderly, handicapped, medically underserved, and a wide variety of broad community support activities.

Through its hospitals, the Company provides care to patients covered by governmental programs, such as Medicare and Medicaid, which reimburse at levels below the actual cost to provide this care. The amount of unpaid cost due to inadequate reimbursement under these programs was approximately \$9,413,000 and \$2,056,300 during the years ended September 30, 2012 and 2011, respectively. The Company also provides additional free care under its charity care policy. The cost of care provided under the Company's charity policy were estimated to be \$4,649,800 and \$4,450,300 during the years ended September 30, 2012 and 2011, respectively. The cost of charity care provided is based on the Company's relationship of costs to charge.

NOTE 5: NET PATIENT SERVICE REVENUE AND PATIENT RECEIVABLES

The Company's patient service revenue before provision for doubtful accounts by payer for the years ending September 30, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	\$ 63,574,500	\$ 59,814,400
Medicaid	16,377,700	18,002,300
HMOs, PPOs, and other private insurers	89,867,900	92,795,100
Self-pay	<u>1,555,700</u>	<u>1,874,500</u>
Patient service revenue	<u>171,375,800</u>	<u>172,486,300</u>

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5: NET PATIENT SERVICE REVENUE AND PATIENT RECEIVABLES (Continued)

The Company has agreements with third-party payers that provide for payments to the Company at amounts different from their established rates. A summary of the payment arrangements with major third-party payers follows:

Medicare:

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, and defined capital costs related to beneficiaries are paid based on a cost reimbursement methodology. The Company is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Company and audits thereof by the Medicare fiscal intermediary. The Company's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Company. The Company's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2009.

Medicaid:

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Company is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Company and audits thereof by the Medicaid fiscal intermediary.

The Company's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2006.

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

The 2012 and 2011 net patient service revenue increased approximately \$0 and \$262,700, respectively due to changes in estimated settlements of previous years.

Other:

The Company has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Company under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates and outpatient service fee schedules.

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5: NET PATIENT SERVICE REVENUE AND PATIENT RECEIVABLES (Continued)

Patient receivables are summarized as follows at September 30,

	<u>2012</u>	<u>2011</u>
Gross patient receivables	\$ 57,313,300	\$ 53,643,100
Less contractual allowances:		
Medicare and Medicare managed care	(14,771,700)	(13,194,900)
Medicaid and Medicaid managed care	(5,139,300)	(4,924,500)
Managed care plans	(5,026,600)	(5,127,400)
Workers compensation	(623,500)	(584,500)
	<u>(25,561,100)</u>	<u>(23,831,300)</u>
Patient receivables net of contractual allowances	31,752,200	29,811,800
Allowance for uncollectible accounts	(9,740,400)	(7,816,200)
Net patient accounts receivable	<u>\$ 22,011,800</u>	<u>\$ 21,995,600</u>

As of September 30, 2012 and 2011, the allowance for uncollectable accounts, plus certain contractual allowances related to self-pay patients, as a percentage of self-pay receivables was 77.2% and 76.7%, respectively. The increase in the allowance percentage is a result of the company experiencing additional patients with no insurance during the continued economic downturn in 2012.

NOTE 6: PROPERTY AND EQUIPMENT

A summary of property and equipment at September 30, follows:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 8,306,500	\$ 8,160,200
Buildings and fixed equipment	84,116,300	83,024,000
Movable equipment	66,696,100	62,628,300
Equipment under capital leases	7,845,900	6,082,300
	<u>166,964,800</u>	<u>159,894,800</u>
Less accumulated depreciation and amortization	(128,470,400)	(119,995,700)
	<u>38,494,400</u>	<u>39,899,100</u>
Construction in progress	2,590,500	1,899,600
Property and equipment, net	<u>\$ 41,084,900</u>	<u>\$ 41,798,700</u>

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7: INTANGIBLE ASSETS AND GOODWILL

During the year ended September 30, 2009, the Company exchanged a parcel of land for parking rights in that same location over the course of 50 years. The value of the license of \$1,928,700 is based on the estimated fair value of the transferred land plus cash that was paid as part of the transaction. A gain of \$1,724,200 was recognized on the transaction. The Company began amortizing the license over the 50-year period once the parking spaces became available in August 2010.

During the year ended September 30, 2010, the Company purchased an oncology practice, resulting in the acquisition of goodwill of \$100,000 and other intangible assets of \$220,000. The goodwill is not amortized. The intangible assets are amortized over ten years.

Intangibles and accumulated amortization at September 30, 2012 and 2011 are as follows:

	2012	2011
Parking license	\$ 1,928,700	\$ 1,915,000
Non-compete covenant and other	220,000	220,000
	<u>2,148,700</u>	<u>2,135,000</u>
Less accumulated amortization	(118,000)	(58,000)
	<u>\$ 2,030,700</u>	<u>\$ 2,077,000</u>

Amortization expense related to intangible assets was \$60,000 and \$52,000 for the years ended September 30, 2012 and 2011, respectively.

Estimated aggregate amortization expense for the next five fiscal years is as follows:

2013	\$ 60,600
2014	\$ 60,600
2015	\$ 60,600
2016	\$ 60,600
2017	\$ 60,600

NOTE 8: LONG-TERM DEBT

Hospital Revenue Bonds, Series 2001, amounting to \$15,000,000 were issued by the Company Facility Authority of Hillsboro, Oregon (the Authority) to fund the irrevocable trust, bond issue costs, financing for construction, and remodeling of hospital buildings and for the acquisition of equipment.

Hospital Revenue and Refunding Bonds, Series 2004 amounting to \$27,220,000 were issued by the Authority to fund an irrevocable trust to defease scheduled principal and interest payments on the Company Revenue and Advance Refunding Bonds, Series 1993. Funds were also provided for bond issue costs, and establishing a project fund of \$1,000,000 for hospital capital purchases. On October 1, 2004, \$27,755,000 of the bonds considered defeased were fully satisfied and discharged.

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8: LONG-TERM DEBT (Continued)

Under the terms of the loan agreements created pursuant to these issuances, Tuality Healthcare (The Obligated Group) agreed to provide funds sufficient to pay the principal and interest on the bonds as they become due and to pay any expenses of the Trustee. The Obligated Group recorded liabilities in the amount of the bonds payable to reflect these agreements. In order to secure the bonds, The Obligated Group granted security interests in the gross revenues from operations, equipment owned or leased located in the Company facilities, and mortgages on the Company real property.

The Obligated Group makes periodic payments to the Authority to satisfy the annual debt service requirements under the bond obligations.

Under the Original Master Indenture, as amended, the Obligor agreed to a number of covenants and conditions. Certain significant covenants, which have been met, are described, as follows:

Annual debt service coverage - Under the Master Indenture, the Obligor is to earn Net Income Available for Debt Service sufficient to achieve an Annual Debt Coverage Ratio of at least 1.20.

Reserve requirement - Under this provision, the Obligor is required to maintain a reserve account with the Bond Trustee, in an amount equal to the least of:

- (a) 10% of the proceeds of the bonds (each Series),
- (b) maximum annual bond service with respect to all outstanding bonds, or
- (c) 125% of average annual bond service with respect to all outstanding bonds.

Liquidity - This provision requires the Obligor to maintain 60 days of cash on hand. Essentially, this is calculated as the total of unrestricted cash and investments divided by daily operating expenses reduced for depreciation. This test is performed April 1 and October 1 each year.

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8: LONG-TERM DEBT (Continued)

Long-term debt at September 30, consisted of the following:

	<u>2012</u>	<u>2011</u>
2001 Series bonds, annual interest payments of \$788,100 at 4.65% until October 2012; variable annual payments, including principal and interest, from \$1,271,600 to \$1,276,400, until October 2031 at rates ranging from 4.65 % to 5.47 %.	\$ 14,835,600	\$ 14,820,200
2004 Series bonds, variable annual payments from \$3,980,700 to \$3,990,800, including interest at rates ranging from 3.0% to 3.815%, until October 2012.	3,835,100	7,538,600
Note payable in equal monthly payments of \$12,200, including interest at an annual interest rate of 7.175%, until April 2012, collateralized by a building owned by the Company.	-	81,300
Present value of net minimum capital lease obligations	<u>2,631,400</u>	<u>2,035,400</u>
Total debt	21,302,100	24,475,500
Less amounts due within one year	<u>(5,549,100)</u>	<u>(4,701,500)</u>
Long-term debt, due after one year	<u>\$ 15,753,000</u>	<u>\$ 19,774,000</u>

Long-term debt maturing in the next five years consists of:

Fiscal years ending	<u>Long-term Debt</u>	<u>Capital Leases</u>	<u>Total</u>
2013	\$ 4,320,000	\$ 1,229,100	\$ 5,549,100
2014	495,700	780,900	1,276,600
2015	521,200	389,100	910,300
2016	546,800	185,200	732,000
2017	572,300	47,100	619,400
Thereafter	<u>12,214,700</u>	<u>-</u>	<u>12,214,700</u>
	<u>\$ 18,670,700</u>	<u>\$ 2,631,400</u>	<u>\$ 21,302,100</u>

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8: LONG-TERM DEBT (Continued)

A summary of interest expense for the years ended September 30, is shown below.

	<u>2012</u>	<u>2011</u>
Interest expense:		
Interest costs	\$ 1,242,900	\$ 1,404,800
Amortization of deferred finance costs	124,400	165,000
Net interest expense incurred	<u>\$ 1,367,300</u>	<u>\$ 1,569,800</u>

NOTE 9: LONG-TERM LEASES

All non-cancelable leases have been categorized as capital or operating leases. The Company leases equipment and buildings under non-cancelable operating leases which expire at various dates between December 2012 and 2028.

The Company has operating leases for several office buildings expiring on five-year terms with various options to renew. The Company also has capital leases which consist of the following:

In March of 2008, the Company entered into five 60-month capital leases for imaging equipment costing a total of \$1,317,362.

On August 29, 2008, the Company entered into a 60-month capital lease for equipment and furnishing costing \$1,388,615.

On December 1, 2008, the Company entered into a 60-month capital lease for equipment costing \$211,674.

On December 31, 2008, the Company entered into a 60-month capital lease for equipment costing \$99,585.

On January 5, 2009, the Company entered into a 63-month capital lease for ultrasound equipment costing \$546,605.

On July 29, 2009, the Company entered into a 60-month capital lease for hematology equipment costing \$85,500.

On August 1, 2009, the Company entered into a 36-month capital lease for IBM hardware costing \$78,439.

On August 29, 2009, the Company entered into a 60-month capital lease for equipment costing \$596,000.

On September 1, 2009, the Company entered into a 36-month capital lease for sterilization equipment costing \$98,260.

On April 1, 2012, the Company entered into a 36-month capital lease for CT equipment costing \$884,921.

On December 5, 2011, the Company entered into a 60-month capital lease for digital mammography equipment costing \$878,688.

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9: LONG-TERM LEASES (Continued)

Property and equipment accounts include the following amounts for equipment leases that have been capitalized:

	<u>2012</u>	<u>2011</u>
Leased equipment	\$ 7,845,900	\$ 6,082,300
Less accumulated amortization (1)	<u>(4,940,400)</u>	<u>(3,896,200)</u>
	<u>\$ 2,905,500</u>	<u>\$ 2,186,100</u>

(1) Amortization is included in depreciation expense.

Minimum future obligations on leases in effect at September 30, 2012, are:

Fiscal years ending	<u>Capital Leases</u>	<u>Operating Leases</u>
2013	\$ 1,321,100	\$ 3,411,900
2014	820,300	3,297,300
2015	402,100	3,408,200
2016	189,700	3,395,000
2017	47,400	3,399,000
Thereafter	<u>-</u>	<u>23,697,000</u>
Total minimum lease payments	2,780,600	\$ <u>40,608,400</u>
Less amounts representing interest	<u>(149,200)</u>	
Present value of net minimum lease payments	<u>\$ 2,631,400</u>	

Interest expense on the outstanding obligations under capital leases was \$134,000 and \$156,400 for the years ended September 30, 2012 and 2011, respectively. Rental expense under non-cancelable operating leases with initial terms of one year or greater was \$3,464,700 and \$3,355,200 for the years ended September 30, 2012 and 2011, respectively.

NOTE 10: PENSION PLAN COSTS

The Company has a defined benefit pension plan covering substantially all of its employees. The Company makes contributions to the plan in amounts sufficient to fund the plan's current service cost and the actuarially computed past service costs over a period of ten years. In August of 2012, the Board of Directors approved an amendment to freeze the defined benefit pension plan effective August 31, 2012. In conjunction with the freeze, the plan is now closed to new entrants and compensation no longer accrues. Current participants who are not yet vested will continue to accrue retirement benefits according to accumulated years of service for hours worked to become vested if they continue working for the Company.

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10: PENSION PLAN COSTS (Continued)

Effective September 1, 2012, the Company established a cash balance retirement plan that covers substantially all of its employees. The plan benefits are based on compensation and years of service. The Company makes annual contributions and provides a defined interest credit to each employee's account.

The defined benefit pension plan and the cash balance retirement plan are collectively "the defined benefit plans".

In addition, during 1994 the Company established the Tuality Healthcare Performance Retirement Plan under which eligible employees may defer a portion of their annual compensation pursuant to Sections 403(b) and 401(k) of the Internal Revenue Code. The Company matches a portion of employee contributions on a discretionary basis. The Company accrued for contributions of \$0 and \$1,057,400 for the years ended September 30, 2012 and 2011, respectively.

The following table sets forth the funded status of the defined benefit plans and amounts recognized in the Company's consolidated balance sheet as of September 30,

	<u>2012</u>	<u>2011</u>
Change in benefit obligation:		
Projected benefit obligation at October 1,	\$ 72,026,439	\$ 60,647,759
Service cost	3,718,917	3,198,950
Interest cost	4,187,061	3,733,236
Amendments	(10,986,865)	-
Actuarial (gain) loss	17,594,095	6,164,543
Benefits paid	(1,999,742)	(1,718,049)
Projected benefit obligation at September 30,	<u>\$ 84,539,905</u>	<u>\$ 72,026,439</u>
	<u>2012</u>	<u>2011</u>
Change in plan assets:		
Fair value of assets at October 1,	\$ 44,663,848	\$ 43,129,323
Actual return on plan assets	4,444,854	(735,578)
Employer contribution	4,928,000	3,988,152
Benefits paid	(1,999,742)	(1,718,049)
Fair value of assets at September 30,	<u>\$ 52,036,960</u>	<u>\$ 44,663,848</u>
Funded status	<u>\$ (32,502,945)</u>	<u>\$ (27,362,591)</u>

Amounts recognized in the consolidated balance sheet as of September 30 consisted of:

	<u>2012</u>	<u>2011</u>
Long-term liabilities	\$ 32,502,945	\$ 27,362,591

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10: PENSION PLAN COSTS (Continued)

Amounts recognized as changes in unrestricted net assets but not yet included in net periodic pension cost as of September 30 consisted of:

	<u>2012</u>	<u>2011</u>
Net loss	\$ 41,499,623	\$ 26,040,306
Prior service cost	<u>(10,985,579)</u>	<u>4,622</u>
Total	<u>\$ 30,514,044</u>	<u>\$ 26,044,928</u>

The accumulated benefit obligation for the defined benefit plans was \$84,504,589 and \$64,245,514 at September 30, 2012 and 2011, respectively.

	<u>2012</u>	<u>2011</u>
Components of net periodic benefit cost:		
Service cost	\$ 3,718,917	\$ 3,198,950
Interest cost	4,187,061	3,733,236
Expected return on plan assets	(3,755,475)	(3,502,982)
Amortization of prior service cost	3,336	3,881
Amortization of net transition obligation (asset)	-	-
Amortization of net actuarial (gain) loss	<u>1,445,399</u>	<u>755,848</u>
Net periodic pension cost	<u>\$ 5,599,238</u>	<u>\$ 4,188,933</u>

Functional classification of net periodic pension cost was as follows:

	<u>2012</u>	<u>2011</u>
Health care services	\$ 5,439,975	\$ 4,035,407
General and administrative	<u>159,263</u>	<u>153,526</u>
Total	<u>\$ 5,599,238</u>	<u>\$ 4,188,933</u>

The estimated net loss and prior service cost that will be amortized from changes in unrestricted net assets into net periodic pension cost over the next fiscal year are \$3,196,404 and (\$1,097,401), respectively.

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10: PENSION PLAN COSTS (Continued)

Assumptions:

	<u>2012</u>	<u>2011</u>
Weighted-average assumptions used to determine benefit obligations at September 30:		
Discount rate	4.75%	5.90%
Rate of compensation increase	3.00%	3.00%
Weighted-average assumptions used to determine net periodic benefit cost for years ended September 30:		
Discount rate	5.90%	6.25%
Expected long-term return on plan assets	7.50%	7.50%
Rate of compensation increase	3.00%	3.00%

The rate of compensation increase is 3.00% for 2011 and after.

The expected long-term rate of return on plan assets reflected the weighted-average expected return for the broad categories of investments currently held in the defined benefit plans (adjusted for expected changes), based on historical rates of return for each broad category, as well as factors that may constrain or enhance returns in the broad categories in the future.

Plan assets:

The composition of plan assets at September 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Asset category		
Non-traded alternative	1.80%	0.00%
Cash	18.84%	27.06%
Equity	45.44%	41.00%
Equity income	6.23%	0.00%
Fixed	20.14%	28.51%
Hedged	7.55%	0.00%
Real estate	0.00%	3.43%
Total	<u>100.00%</u>	<u>100.00%</u>

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10: PENSION PLAN COSTS (Continued)

The Company's investment policy is to manage the defined benefit plans with long-term (five years and more) objectives; with little concern for high current income or the need to maintain ready-cash reserves; and with the intent to achieve the highest practicable long-term rate of return without taking excessive risk that could jeopardize the funding policy or cause undue funding volatility. In consideration of this policy, the defined benefit plans will invest in a variety of asset classes (including short-term money-market securities, large-company common stocks, smaller-company common stocks, international common stocks and fixed income securities) and will diversify sufficiently within each asset class or may invest in index funds to minimize the risk of large losses. Target allocation percentages for each major category of plan assets are as follows:

Non-traded alternative	2.00%
Cash	2.00%
Equity	45.00%
Equity income	8.00%
Fixed	28.00%
Hedged	15.00%
Total	<u>100.00%</u>

Cash flows:

The Company expects to contribute \$4,740,001 to its pension plan in 2013.

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

2013	\$	2,590,000
2014		3,120,000
2015		3,640,000
2016		4,160,000
2017		4,770,000
Following five years		31,670,000

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10: PENSION PLAN COSTS (Continued)

The following table presents the Company's pension plan assets measured at fair market value at September 30, 2012.

	Fair Value	Fair Value Measurements at Report Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 6,698,206	\$ 6,698,206	\$ -	\$ -
Equity securities:				
Fixed income	728,197	728,197	-	-
Large cap	2,971,814	2,971,814	-	-
Mid cap	743,875	743,875	-	-
Small cap	1,601,332	1,601,332	-	-
Investment contract with insurance company	4,494,434	-	-	4,494,434
Corporate bonds and debentures	853,850	-	853,850	-
U.S. Government securities	2,834	2,834	-	-
Alternative investments	3,456,172	1,102,705	-	2,353,467
Pooled separate accounts:				
Mid cap	939,939	939,939	-	-
Registered investment companies:				
Fixed income	10,277,595	10,277,595	-	-
Large cap	12,354,047	12,354,047	-	-
Mid cap	3,695,678	3,695,678	-	-
Small cap	3,218,987	3,218,987	-	-
Total	<u>\$ 52,036,960</u>	<u>\$ 44,335,209</u>	<u>\$ 853,850</u>	<u>\$ 6,847,901</u>

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10: PENSION PLAN COSTS (Continued)

The following table presents the Company's pension plan assets measured at fair market value at September 30, 2011.

		Fair Value Measurements at Report Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
Cash and cash equivalents	\$ 892,010	\$ 892,010	\$ -	\$ -
Equity securities:				
Fixed income	9,516	9,516	-	-
Large cap	1,263,514	1,263,514	-	-
Mid cap	1,112,898	1,112,898	-	-
Small cap	1,190,252	1,190,252	-	-
Investment contract with insurance company	20,724,044	-	-	20,724,044
Corporate bonds and debentures	470,131	-	470,131	-
U.S. Government securities	162,448	162,448	-	-
Alternative investments	289,288	-	-	289,288
Pooled separate accounts:				
Large cap	434,697	434,697	-	-
Mid cap	642,750	642,750	-	-
Small cap	1,323,287	1,323,287	-	-
Registered investment companies:				
Fixed income	2,817,591	2,817,591	-	-
Large cap	6,881,646	6,881,646	-	-
Mid cap	3,755,570	3,755,570	-	-
Small cap	2,019,069	2,019,069	-	-
Other	675,137	675,137	-	-
Total	\$ 44,663,848	\$ 23,180,385	\$ 470,131	\$ 21,013,332

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10: PENSION PLAN COSTS (Continued)

Level 1 Fair Value Measurements:

The fair value of pooled separate accounts, investments with registered investment companies, and equity securities is based on quoted market prices.

Level 2 Fair Value Measurements:

The fair value of corporate bonds and debentures for which quoted market prices are not available is valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Level 3 Fair Value Measurements:

The fair value of the investment contract is based on a unit value basis, which approximates fair value. Prices are generally obtained directly from the fund house or other investment provider. The contract value of the funds held in the Guaranteed Deposit Account, which approximates fair value, generally represents principal plus accrued interest. The fair value of alternative investments is based on a net asset value per share. Net asset value per share was obtained directly from the financial statements of the issuer.

The following table reconciles the beginning and ending balances of fair value measurements using significant unobservable inputs for the year ending September 30, 2012.

	Investment Contract with Insurance Company	Alternative Investments	Total
Balance at October 1, 2010	\$ 15,644,258	\$ 292,058	\$ 15,936,316
Total gains or losses (realized and unrealized) included in income	669,554	(2,770)	666,784
Purchases, sales, issuances and settlements (net)	4,410,232	-	4,410,232
Balance at October 1, 2011	20,724,044	289,288	21,013,332
Total gains or losses (realized and unrealized) included in income	208,887	(70,821)	138,066
Purchases	4,928,000	2,135,000	7,063,000
Sales	(21,366,497)	-	(21,366,497)
Balance at September 30, 2012	\$ 4,494,434	\$ 2,353,467	\$ 6,847,901

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11: FUNCTIONAL EXPENSES

Tuality Healthcare provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended September 30.

	<u>2012</u>	<u>2011</u>
Health care services	\$ 162,399,600	\$ 153,629,100
General and administrative	5,024,700	7,041,500
	<u>\$ 167,424,300</u>	<u>\$ 160,670,600</u>

Fundraising expense for the years ending September 30, 2012 and 2011 was \$231,600 and \$259,600, respectively.

NOTE 12: CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist of the following:

Cash:

The Company maintains its cash balances at several financial institutions located in Washington County, Oregon. As of September 30, 2012, accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At September 30, 2012, the Company's uninsured cash balances totaled \$411,400.

Patient receivables:

The mix of patient receivables was as follows at September 30,

	<u>2012</u>	<u>2011</u>
Medicare and medicare managed care	40.50%	38.40%
Medicaid and medicaid managed care	13.50%	14.40%
Managed care plans	27.30%	29.30%
Workers compensation	2.50%	2.40%
Other	16.20%	15.50%
	<u>100.00%</u>	<u>100.00%</u>

Promises to give receivable:

Credit risk for promises to give is concentrated because substantially all of the balances are receivable from individuals located within the same geographic location as the Company. The receivable for promises to give at September 30, 2012, was \$75,700.

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 13: COMMITMENTS AND CONTINGENCIES

During the normal course of its operations the Company becomes involved in litigation and regulatory investigations. After consultation with its legal counsel, management believes that these matters will be resolved without material adverse effect on the Company's future financial position.

Tuality Healthcare has an employee medical benefit plan to self-insure claims up to \$150,000 per year for each individual covered, with an individual lifetime maximum benefit of \$2,000,000. This self-insured medical benefit plan operates on a calendar year basis and is administered by a third party administrator. Claims above \$135,000 per individual are covered by an excess medical indemnity (reinsurance) policy. Tuality Healthcare and its covered employee dependents contribute to the fund to pay medical claims and reinsurance premiums. At September 30, 2012, management has made provisions which it believes to be sufficient to cover estimated claims, including claims incurred but not yet reported.

Effective August 1, 2004 through August 30, 2010, Tuality Healthcare, with four other Oregon hospitals, was part of a captive insurance arrangement in Nevada organized by Health Futures, LLC (HFIE). Each of the members of the HFIE Risk Retention Group were self-insured up to \$100,000 per occurrence. The HFIE Risk Retention Group was directly responsible for costs per claim between \$100,000 and \$500,000 and had purchased an excess liability (reinsurance) policy for costs over \$500,000 per occurrence to \$250,000,000 in aggregate.

Effective September 1, 2010, Tuality Healthcare transitioned its status as a subscriber and insured under HFIE, and entered into a different captive insurance arrangement with Mountain States Healthcare Reciprocal Retention Group (MSH) along with other member hospitals. Tuality Healthcare's commitment is for a period to be no less than 5 years. General and Professional liability costs have been accrued based on actuarial determination. All claims under the MSH policy are subject to a \$25,000 deductible indemnity payment per claim. The limits provided in the primary policy issued by MSH shall be \$1,000,000 per claim and \$3,000,000 annual aggregate for general and hospital professional liability, and \$1,000,000 per claim and \$3,000,000 annual aggregate for physician professional liability. An excess/umbrella insurance program exists for general and hospital professional liability and provides limits in 4 separate layers and is reinsured by CNA (first excess layer), Zurich (next two excess layers), and Chartis (last excess layer) insurance companies. Each layer provides limits of \$5,000,000 per claim and \$5,000,000 annual aggregate per hospital and \$15,000,000 annual aggregate for all hospitals participating in that layer. Total limits for the hospitals that participate in all four layers are \$20,000,000 per claim, \$20,000,000 annual aggregate per hospital and \$60,000,000 annual aggregate for all hospitals combined. During the initial period of Tuality Healthcare's participation, September 1, 2010 through December 31, 2010, only the first three layers apply to Tuality Healthcare. After January 1, 2011 all four excess layers apply.

Guarantee of debt:

The Company, jointly with OHSU, is a guarantor of debt and lease obligations of TOCC. The Company's guaranteed portion of TOCC's debt and lease obligations totaled approximately \$216,100 at September 30, 2012 and \$98,700 at September 30, 2011. The guarantees are scheduled to expire October 2014. Examples of events that would require the Company to provide a cash payment pursuant to the guarantees include a loan default, which would result from TOCC's failure to service its debt when due or noncompliance with financial covenants. There is currently no recorded liability for potential losses under these guarantees, nor is there any liability for the Company's obligation to *stand ready* to fund such guarantees.

TUALITY HEALTHCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 14: PROMISES TO GIVE

At September 30, 2012, there were no conditional promises to give. Unconditional promises to give at September 30 are as follows:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 67,100	\$ 47,700
Receivable in one to five years	<u>13,000</u>	<u>4,500</u>
Total unconditional promises to give	80,100	52,200
Less discounts to net present value	<u>(4,400)</u>	<u>(3,900)</u>
Net unconditional promises to give	<u>\$ 75,700</u>	<u>\$ 48,300</u>

TUALITY HEALTHCARE

CONSOLIDATING BALANCE SHEETS

As of September 30, 2012

	Tuality Healthcare	TMSI/ TMES	Tuality Property Management Co	Tuality Healthcare Foundation	Total	Intercompany Eliminations	Consolidated September 30, 2012	2011
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	\$ 12,436,400	\$ 442,000	\$ 2,624,500	\$ 225,200	\$ 15,728,100	\$ -	\$ 15,728,100	\$ 14,666,600
Short-term investments	17,939,700	-	-	773,300	18,713,000	-	18,713,000	18,471,700
Patent accounts receivable	31,506,000	246,200	-	-	31,752,200	-	31,752,200	29,791,800
Allowance for uncollectible accounts	(9,720,400)	(20,000)	-	-	(9,740,400)	-	(9,740,400)	(7,796,200)
Other receivables	5,136,200	-	(1,300)	66,800	5,201,700	-	5,201,700	3,912,900
Allowance for uncollectible accounts	(815,200)	-	-	(3,300)	(818,500)	-	(818,500)	(1,028,700)
Inventory of supplies	2,604,000	307,300	-	-	2,911,300	-	2,911,300	2,799,100
Prepaid expenses and other	2,079,500	3,700	-	-	2,083,200	-	2,083,200	2,251,000
Assets whose use is limited								
Required for current liabilities	4,787,200	-	-	-	4,787,200	-	4,787,200	4,239,700
Due from subsidiaries	1,138,000	84,900	2,664,100	56,800	3,943,800	(3,943,800)	-	-
Total current assets	67,091,400	1,064,100	5,287,300	1,118,800	74,561,600	(3,943,800)	70,617,800	67,307,900
ASSETS WHOSE USE IS LIMITED								
Board designated funds	21,776,400	-	-	-	21,776,400	-	21,776,400	19,733,200
Under bond indenture agreement - held by Trustee	5,578,800	-	-	-	5,578,800	-	5,578,800	8,238,100
Donor restricted - specific purpose	1,256,900	-	-	1,969,300	3,226,200	-	3,226,200	1,493,900
Donor restricted - endowment	-	-	-	2,526,400	2,526,400	-	2,526,400	2,516,600
Less amount required for current liabilities	(4,787,200)	-	-	-	(4,787,200)	-	(4,787,200)	(4,239,700)
Total assets whose use is limited	23,824,900	-	-	4,495,700	28,320,600	-	28,320,600	27,742,100
PROPERTY AND EQUIPMENT								
Property and equipment	149,503,500	407,500	19,644,300	-	169,555,300	-	169,555,300	161,794,400
Accumulated depreciation	(114,163,400)	(325,100)	(13,981,900)	-	(128,470,400)	-	(128,470,400)	(119,995,700)
Total property and equipment	35,340,100	82,400	5,662,400	-	41,084,900	-	41,084,900	41,798,700
OTHER ASSETS								
Other receivables - noncurrent	1,459,400	-	-	12,200	1,471,600	-	1,471,600	4,100
Investments in subsidiaries	13,929,200	-	-	-	13,929,200	(13,929,200)	-	-
Investments	2,769,900	211,200	-	-	2,981,100	-	2,981,100	2,581,400
Field by Trustee - deferred compensation plan	836,900	-	-	-	836,900	-	836,900	680,700
Deferred costs and other	749,200	-	-	-	749,200	-	749,200	838,800
Intangible assets	176,000	-	1,854,700	-	2,030,700	-	2,030,700	2,077,000
Goodwill	100,000	-	-	-	100,000	-	100,000	100,000
Total other assets	20,020,600	211,200	1,854,700	12,200	22,098,700	(13,929,200)	8,169,500	6,282,000
	\$ 146,277,000	\$ 1,357,700	\$ 12,804,400	\$ 5,626,700	\$ 166,065,800	\$ (17,873,000)	\$ 148,192,800	\$ 143,130,700

See notes to financial statements.

TUALITY HEALTHCARE

CONSOLIDATING BALANCE SHEETS (CONTINUED)

As of September 30, 2012

	Tuality Healthcare	TMSI/ TMES	Tuality Property Management Co	Tuality Healthcare Foundation	Total	Intercompany Eliminations	Consolidated September 30, 2012	2011
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Accounts payable	\$ 10,257,200	\$ 131,100	\$ 60,000	\$ 4,600	\$ 10,452,900	\$ -	\$ 10,452,900	\$ 9,479,400
Accrued payroll and employee benefits	9,546,700	136,300	-	-	9,683,000	-	9,683,000	9,006,300
Estimated liabilities for Medicare and Medicaid settlements	(148,200)	-	-	-	(148,200)	-	(148,200)	1,065,500
Long-term debt due within one year	5,549,100	-	-	-	5,549,100	-	5,549,100	4,701,500
Accrued bond interest payable	467,200	-	-	-	467,200	-	467,200	534,300
Due to subsidiaries	2,800,700	779,400	-	363,700	3,943,800	(3,943,800)	-	-
Total current liabilities	28,472,700	1,046,800	60,000	368,300	29,947,800	(3,943,800)	26,004,000	24,787,000
LONG-TERM LIABILITIES								
Long-term debt, net of amount due within one year	15,753,000	-	-	-	15,753,000	-	15,753,000	19,774,000
Liability for pension benefits	32,502,900	-	-	-	32,502,900	-	32,502,900	27,362,600
Other long-term liabilities	2,290,900	-	-	-	2,290,900	-	2,290,900	-
Total long-term liabilities	50,546,800	-	-	-	50,546,800	-	50,546,800	47,136,600
TOTAL LIABILITIES	79,019,500	1,046,800	60,000	368,300	80,494,600	(3,943,800)	76,550,800	71,923,600
NET ASSETS								
Unrestricted	66,000,600	310,900	12,744,400	687,000	79,742,900	(13,929,200)	65,813,700	67,148,300
Temporarily restricted by donors	1,256,900	-	-	2,045,000	3,301,900	-	3,301,900	1,542,200
Permanently restricted by donors	-	-	-	2,526,400	2,526,400	-	2,526,400	2,516,600
Total net assets	67,257,500	310,900	12,744,400	5,258,400	85,571,200	(13,929,200)	71,642,000	71,207,100
	\$ 146,277,000	\$ 1,357,700	\$ 12,804,400	\$ 5,626,700	\$ 166,065,800	\$ (17,873,000)	\$ 148,192,800	\$ 143,130,700

See notes to financial statements.

TUALITY HEALTHCARE

CONSOLIDATING SCHEDULE OF OPERATIONS
For the year ended September 30, 2012

	Tuality Healthcare	TMSI/ TMES	Tuality Property Management Co	Tuality Healthcare Foundation	Total	Intercompany Eliminations	Consolidated September 30, 2012	2011
NET PATIENT SERVICE REVENUE								
Patient service revenue (net of contractual allowances and discounts)	\$ 169,713,100	\$ 1,662,700	\$ -	\$ -	\$ 171,375,800	\$ -	\$ 171,375,800	\$ 172,486,300
Provision for bad debts	(15,275,900)	(16,100)	-	-	(15,292,000)	-	(15,292,000)	(15,401,400)
Total net patient service revenue	154,437,200	1,646,600	-	-	156,083,800	-	156,083,800	157,084,900
OTHER REVENUE								
Total Revenue	12,242,400	41,900	2,334,500	239,300	14,858,100	(3,221,700)	11,636,400	6,922,000
	166,679,600	1,688,500	2,334,500	239,300	170,941,900	(3,221,700)	167,720,200	164,006,900
OPERATING EXPENSES								
Salaries and wages	77,578,200	295,300	-	-	77,873,500	-	77,873,500	75,031,500
Employee benefits	21,496,600	114,000	-	-	21,610,600	-	21,610,600	20,383,800
Supplies and other expenses	55,382,500	926,100	673,100	-	56,981,700	(2,100,400)	54,881,300	51,909,600
Professional fees	2,979,500	-	70,800	-	3,050,300	-	3,050,300	3,290,600
Management fees	-	199,400	424,400	-	623,800	(623,800)	-	-
Depreciation and amortization	8,044,400	34,600	562,300	-	8,641,300	-	8,641,300	8,485,300
Interest	1,365,400	-	1,900	-	1,367,300	-	1,367,300	1,569,800
Total operating expenses	166,846,600	1,569,400	1,732,500	-	170,148,500	(2,724,200)	167,424,300	160,670,600
INCOME FROM OPERATIONS	(167,000)	119,100	602,000	239,300	793,400	(497,500)	295,900	3,336,300
OTHER INCOME								
Realized income on investments whose use is limited by board designation	765,600	-	-	-	765,600	-	765,600	614,400
Gain (loss) on investments in affiliated companies	1,048,400	-	-	(497,500)	550,900	(213,600)	337,300	357,900
Gain (loss) on disposal of property and equipment	18,800	(11,400)	1,400	-	8,800	-	8,800	270,000
Total other income	1,832,800	(11,400)	1,400	(497,500)	1,325,300	(213,600)	1,111,700	1,242,300
REVENUE IN EXCESS OF EXPENSES	1,665,800	107,700	603,400	(258,200)	2,118,700	(711,100)	1,407,600	4,578,600
Contributions for property and equipment acquisition	442,900	-	-	-	442,900	-	442,900	466,500
Change in net unrealized gain (loss) on other than trading securities	1,232,500	-	-	51,500	1,284,000	-	1,284,000	(534,200)
Cumulative Net Periodic Pension	(4,469,100)	-	-	-	(4,469,100)	-	(4,469,100)	(10,448,100)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ (1,127,900)	\$ 107,700	\$ 603,400	\$ (206,700)	\$ (623,500)	\$ (711,100)	\$ (1,334,600)	\$ (5,937,200)

See notes to financial statements.

TUALITY HEALTHCARE FOUNDATION, INC.

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

For the year ended September 30, 2012

		Donor Restricted		
	General Funds	Specific Purpose Funds	Endowment Funds	Total
REVENUES AND ADDITIONS				
Contributions	\$ 221,300	\$ 902,100	\$ 9,800	\$ 1,133,200
Investment income	61,000	688,300	-	749,300
Net assets released from restrictions used for operations	8,400	(8,400)	-	-
	<u>290,700</u>	<u>1,582,000</u>	<u>9,800</u>	<u>1,882,500</u>
EXPENSES AND DEDUCTIONS				
Operating expenses and deductions	-	268,000	-	268,000
Net assets released from restrictions	-	-	-	-
	<u>290,700</u>	<u>1,314,000</u>	<u>9,800</u>	<u>1,614,500</u>
TRANSFERS				
To Tuality Community Hospital	<u>497,500</u>	<u>760,400</u>	<u>-</u>	<u>1,257,900</u>
CHANGE IN NET ASSETS	(206,800)	553,600	9,800	356,600
NET ASSETS AT BEGINNING OF YEAR	<u>893,800</u>	<u>1,491,400</u>	<u>2,516,600</u>	<u>4,901,800</u>
NET ASSETS AT END OF YEAR	\$ <u><u>687,000</u></u>	\$ <u><u>2,045,000</u></u>	\$ <u><u>2,526,400</u></u>	\$ <u><u>5,258,400</u></u>

See notes to financial statements.