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Part III

Statement of Program Service Accomplishments

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

1 Briefly describe the organization's mission

To provide quality healthcare to individuals and the community as a whole in a Judeo-Christian manner

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 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 \$ 461,679,467 including grants of \$ 43,211) (Revenue \$ 607,335,388)

Kettering Memorial Hospital, Sycamore Hospital, Kettering Behavioral Medicine Center, and other patient care related services provided care for 27,859 discharges, adult & ped days of 115,844, and 416,229 outpatient visits

4b

(Code) (Expenses \$ 15,243,004 including grants of \$ 115,199) (Revenue \$ 12,272,830)

Kettering College provided health educational programs for 1,142 students including 270 graduating

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 ▶ 476,922,471

Part IV

Checklist of Required Schedules

	Yes	No
1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? If "Yes," complete Schedule A 	1 Yes	
2 Is the organization required to complete Schedule B, Schedule of Contributors (see instructions)? 	2 Yes	
3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "Yes," complete Schedule C, Part I	3	No
4 Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If "Yes," complete Schedule C, Part II	4	No
5 Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If "Yes," complete Schedule C, Part III	5	No
6 Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If "Yes," complete Schedule D, Part I 	6	No
7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? If "Yes," complete Schedule D, Part II 	7	No
8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III 	8	No
9 Did the organization report an amount in Part X, line 21 for escrow or custodial account liability, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? If "Yes," complete Schedule D, Part IV 	9	No
10 Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? If "Yes," complete Schedule D, Part V 	10	No
11 If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable		
a Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI 	11a Yes	
b Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VII 	11b	No
c Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VIII 	11c	No
d Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part IX 	11d	No
e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X 	11e Yes	
f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? If "Yes," complete Schedule D, Part X 	11f Yes	
12a Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI and XII 	12a	No
b Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI and XII is optional 	12b Yes	
13 Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E	13	No
14a Did the organization maintain an office, employees, or agents outside of the United States?	14a	No
b Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? If "Yes," complete Schedule F, Parts I and IV	14b	No
15 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the United States? If "Yes," complete Schedule F, Parts II and IV	15	No
16 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the United States? If "Yes," complete Schedule F, Parts III and IV	16	No
17 Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? If "Yes," complete Schedule G, Part I (see instructions)	17	No
18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? If "Yes," complete Schedule G, Part II	18	No
19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III	19	No
20a Did the organization operate one or more hospital facilities? If "Yes," complete Schedule H 	20a Yes	
b If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return? 	20b Yes	

Part IV

Checklist of Required Schedules (continued)

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

Part V

Statements Regarding Other IRS Filings and Tax Compliance

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

		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	1,003	
1b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	0	
1c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	Yes	
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.	8,794	
2b	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).	Yes	
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	Yes	
3b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O.	Yes	
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?		No
b	If "Yes," enter the name of the foreign country: _____ See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.		
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?		No
5b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?		No
5c	If "Yes," to line 5a or 5b, did the organization file Form 8886-T?		
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 as charitable contributions?		No
6b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?		
7	Organizations that may receive deductible contributions under section 170(c).		
7a	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?		No
7b	If "Yes," did the organization notify the donor of the value of the goods or services provided?		
7c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?		No
7d	If "Yes," indicate the number of Forms 8282 filed during the year.		
7e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?		No
7f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?		No
7g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?		
7h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?		
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?		
9	Sponsoring organizations maintaining donor advised funds.		
9a	Did the organization make any taxable distributions under section 4966?		
9b	Did the organization make a distribution to a donor, donor advisor, or related person?		
10	Section 501(c)(7) organizations. Enter		
10a	Initiation fees and capital contributions included on Part VIII, line 12.		
10b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.		
11	Section 501(c)(12) organizations. Enter		
11a	Gross income from members or shareholders.		
11b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).		
12a	Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?		
12b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year.		
13	Section 501(c)(29) qualified nonprofit health insurance issuers.		
13a	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.		
13b	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.		
13c	Enter the amount of reserves on hand.		
14a	Did the organization receive any payments for indoor tanning services during the tax year?		No
14b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.		

Part VI

Governance, Management, and Disclosure

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

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

Section A. Governing Body and Management

		Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year	12	
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			
b	Enter the number of voting members included in line 1a, above, who are independent	6	
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	2	No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?	3	No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4	No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5	No
6	Did the organization have members or stockholders?	6	No
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?	7a	No
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	7b	No
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
a	The governing body?	8a	Yes
b	Each committee with authority to act on behalf of the governing body?	8b	Yes
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O	9	No

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

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

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed
18	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply. ☐ Own website ☒ Another's website ☒ Upon request ☐ Other (explain in Schedule O)
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. Clifton Patten 2110 Leiter Road Miamisburg, OH (937) 384-4550

Part VII

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

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

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

- 1a Complete this table for all persons required to be listed Report compensation for the calendar year ending with or within the organization's tax year
- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation Enter -0- in columns (D), (E), and (F) if no compensation was paid

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

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

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

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

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

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

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(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) Roy Chew KMC President	40 00 0 00	X		X				0	2,108,368	497,874
(2) Fred Manchur KHN CEO	1 00 39 00	X						0	1,391,797	390,260
(3) Dave Weigley President, Columbia Union Conference of SDA	1 00	X						10,000	0	0
(4) Raj Attiken President, Ohio Conference of SDA	1 00	X						0	0	0
(5) Semue Chapman Principal & CEO, The CA Group	1 00	X						0	0	0
(6) Jon Velasco MD Physician	1 00	X						0	0	0
(7) Candice Chrstenson RN Community Volunteer	1 00	X						0	0	0
(8) Jack Fritzsche CEO, Century Propane	1 00	X						0	0	0
(9) Susan Kettering Community Volunteer	1 00	X						0	0	0
(10) Franklin Handel MD Physician	1 00	X						0	0	0
(11) Lee Hieronymis Community Volunteer	1 00	X						0	0	0
(12) Stewart Adam MD Physician	1 00	X						0	0	0
(13) Brett Spenst KMC CFO	40 00			X				0	748,579	29,286
(14) Steve Chavez KMC CFO	40 00			X				0	153,117	17,450
(15) Mark Smith President, Sycamore Hospital	40 00				X			0	433,775	37,812
(16) Brenda Kuhn KMC VP of Patient Care Services	40 00				X			0	372,376	34,829
(17) Walter Sackett VP, Sycamore Hospital	40 00				X			0	325,653	36,746

Part VII

1b	Sub-Total			
c	Total from continuation sheets to Part VII, Section A			
d	Total (add lines 1b and 1c)	1,072,020	6,193,369	1,169,449

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 134

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

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization Report compensation for the calendar year ending with or within the organization's tax year		
(A) Name and business address	(B) Description of services	(C) Compensation
Danis Builders LLC 3233 Newmark Drive Miamisburg OH 45342	General Contractor	23,182,844
Southview Orthopedic Center Management L 40 N Main Street Suite 600 Dayton OH 45423	Healthcare Services	13,529,341
JR Remick Inc 3864 S Kettering Blvd Ste 200 Dayton OH 45439	Property Management	4,223,246
Kettering Cardiovascular Ancillary Servi 2110 Leiter Road Miamisburg OH 45342	Healthcare Services	3,944,450
Cardiology Specialists of Dayton 4160 Little York Road Suite 20 Dayton OH 45414	Physician Services	3,127,146
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 ▶102		

Part VIII

Statement of Revenue

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

			(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514	
Contributions, Gifts, Grants and Other Similar Amounts	1a	Federated campaigns . . .	1a				
	b	Membership dues	1b				
	c	Fundraising events	1c				
	d	Related organizations	1d	1,906,178			
	e	Government grants (contributions)	1e	302,834			
	f	All other contributions, gifts, grants, and similar amounts not included above	1f				
	g	Noncash contributions included in lines 1a-1f \$					
	h	Total. Add lines 1a-1f		2,209,012			
Program Service Revenue	2a	Patient care services	Business Code 622000	613,014,302	607,335,388	143,569	5,535,345
	b	Kettering College	611310	12,272,830	12,272,830		
	c	Reference lab	621500	1,950,516		1,950,516	
	d						
	e						
	f	All other program service revenue					
	g	Total. Add lines 2a-2f		627,237,648			
	Other Revenue	3	Investment income (including dividends, interest, and other similar amounts)		9,474,758		231,028
4		Income from investment of tax-exempt bond proceeds		370,507			370,507
5		Royalties					
6a		(i) Real					
		(ii) Personal					
b		Less rental expenses					
c		Rental income or (loss)					
d		Net rental income or (loss)					
7a		(i) Securities					
		(ii) Other					
b		Less cost or other basis and sales expenses					
c		Gain or (loss)					
d		Net gain or (loss)		18,006,457			18,006,457
8a		Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18					
a							
b		Less direct expenses					
c	Net income or (loss) from fundraising events						
9a	Gross income from gaming activities See Part IV, line 19						
a							
b	Less direct expenses						
c	Net income or (loss) from gaming activities						
10a	Gross sales of inventory, less returns and allowances						
a							
b	Less cost of goods sold						
c	Net income or (loss) from sales of inventory						
Miscellaneous Revenue		Business Code					
11a	Other real estate activities	531390	34,848		34,848		
b	Other services to buildings & dwe	561700	3,553		3,553		
c	Other computer related services	541519	2,439		2,439		
d	All other revenue						
e	Total. Add lines 11a-11d		40,840				
12	Total revenue. See Instructions		657,339,222	619,608,218	2,365,953	33,156,039	

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).

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.				
2	Grants and other assistance to individuals in the United States. See Part IV, line 22.	158,410	158,410		
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.	7,507,754		7,507,754	
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.	212,317,380	183,115,649	29,201,731	
8	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions).	10,555,967	9,104,119	1,451,848	
9	Other employee benefits.	26,296,659	22,679,866	3,616,793	
10	Payroll taxes.	14,328,207	12,357,533	1,970,674	
11	Fees for services (non-employees):				
a	Management.	1,592,554		1,592,554	
b	Legal.	520,146	127,430	392,716	
c	Accounting.	37,616		37,616	
d	Lobbying.				
e	Professional fundraising services. See Part IV, line 17.				
f	Investment management fees.	1,912,505		1,912,505	
g	Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O).	48,570,241	34,437,492	14,132,749	
12	Advertising and promotion.	1,219,845	826,253	393,592	
13	Office expenses.	7,862,513	7,479,860	382,653	
14	Information technology.	8,661,052	902,887	7,758,165	
15	Royalties.				
16	Occupancy.	7,813,988	5,764,184	2,049,804	
17	Travel.	1,145,589	1,046,457	99,132	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials.				
19	Conferences, conventions, and meetings.	235,597	212,766	22,831	
20	Interest.	13,093,210	9,488,111	3,605,099	
21	Payments to affiliates.				
22	Depreciation, depletion, and amortization.	38,485,266	28,389,622	10,095,644	
23	Insurance.	9,707,704	9,161,483	546,221	
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	Medical supplies.	104,668,147	104,563,942	104,205	
b	Physician services.	29,175,305	29,175,305		
c	Cost of goods sold.	7,004,814	7,004,814		
d	Hospital assessment.	6,375,689	6,375,689		
e	All other expenses.	6,761,342	4,550,599	2,210,743	
25	Total functional expenses. Add lines 1 through 24e.	566,007,500	476,922,471	89,085,029	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

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

☐

				(A)		(B)
				Beginning of year		End of year
Assets	1	Cash—non-interest-bearing		51,161,305	1	14,937,203
	2	Savings and temporary cash investments		26,629,796	2	99,341,198
	3	Pledges and grants receivable, net		279,358	3	315,324
	4	Accounts receivable, net		75,974,012	4	75,787,999
	5	Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L			5	
	6	Loans and other 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) Complete Part II of Schedule L			6	
	7	Notes and loans receivable, net		744,806	7	806,829
	8	Inventories for sale or use		9,221,632	8	9,232,572
	9	Prepaid expenses and deferred charges		4,516,843	9	7,914,011
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a849,513,862			
	b	Less accumulated depreciation	10b470,950,167	384,587,363	10c	378,563,695
	11	Investments—publicly traded securities		355,492,932	11	357,464,588
	12	Investments—other securities See Part IV, line 11			12	
	13	Investments—program-related See Part IV, line 11			13	
	14	Intangible assets		3,700,000	14	3,700,000
	15	Other assets See Part IV, line 11		17,972,302	15	18,780,420
	16	Total assets. Add lines 1 through 15 (must equal line 34)		930,280,349	16	966,843,839
Liabilities	17	Accounts payable and accrued expenses		86,678,395	17	93,787,442
	18	Grants payable			18	
	19	Deferred revenue		994,978	19	1,825,727
	20	Tax-exempt bond liabilities		356,999,682	20	353,249,059
	21	Escrow or custodial account liability Complete Part IV of Schedule D			21	
	22	Loans and other 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		1,072,686	24	648,549
	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		83,605,210	25	90,066,753
	26	Total liabilities. Add lines 17 through 25		529,350,951	26	539,577,530
Net Assets or Fund Balances	Organizations that follow SFAS 117 (ASC 958), check here ☒ and complete lines 27 through 29, and lines 33 and 34.					
	27	Unrestricted net assets		400,929,398	27	427,266,309
	28	Temporarily restricted net assets			28	
	29	Permanently restricted net assets			29	
	Organizations that do not follow SFAS 117 (ASC 958), 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		400,929,398	33	427,266,309
	34	Total liabilities and net assets/fund balances		930,280,349	34	966,843,839

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	657,339,222
2	Total expenses (must equal Part IX, column (A), line 25)	2	566,007,500
3	Revenue less expenses Subtract line 2 from line 1	3	91,331,722
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	400,929,398
5	Net unrealized gains (losses) on investments	5	6,858,682
6	Donated services and use of facilities	6	
7	Investment expenses	7	
8	Prior period adjustments	8	
9	Other changes in net assets or fund balances (explain in Schedule O)	9	-71,853,493
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	427,266,309

Part XII Financial Statements and Reporting

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

		Yes	No
1	Accounting method used to prepare the Form 990 ☐ Cash ☒ Accrual ☐ Other _____ If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O		
2a	Were the organization's financial statements compiled or reviewed by an independent accountant? If "Yes," check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both ☐ Separate basis ☐ Consolidated basis ☐ Both consolidated and separate basis		No
2b	Were the organization's financial statements audited by an independent accountant? If "Yes," check a box below to indicate whether the financial statements for the year were audited on a separate basis, consolidated basis, or both ☐ Separate basis ☒ Consolidated basis ☐ Both consolidated and separate basis	Yes	
2c	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	Yes	
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?	Yes	
3b	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	

SCHEDULE A
(Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

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

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

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization Kettering Medical Center	Employer identification number 31-0621866
--	--

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

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

- 1

☐

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

☐

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

☒

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

☐

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

☐

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

☐

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

☐

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

☐

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

☐

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

☐

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

☐

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

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Non-functionally integrated
- 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)		

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

Part II

Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)
(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public support. Subtract line 5 from line 4						

Section B. Total Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
11 Total support (Add lines 7 through 10)						
12 Gross receipts from related activities, etc (see instructions)					12	
13 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here ▶						

Section C. Computation of Public Support Percentage						
14 Public support percentage for 2012 (line 6, column (f) divided by line 11, column (f))		14				
15 Public support percentage for 2011 Schedule A, Part II, line 14		15				
16a 33 1/3% support test—2012. 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—2011. 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—2012. 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—2011. 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 IIISupport 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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
13 Total support. (Add lines 9, 10c, 11, and 12.)						
14 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here ▶						

Section C. Computation of Public Support Percentage		
15 Public support percentage for 2012 (line 8, column (f) divided by line 13, column (f))	15	
16 Public support percentage from 2011 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2012 (line 10c, column (f) divided by line 13, column (f))	17	
18 Investment income percentage from 2011 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2012. 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—2011. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and stop here. The organization qualifies as a publicly supported organization ▶		
20 Private foundation. If the organization did not check a box on line 14, 19a, or 19b, check this box and see instructions ▶		

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

Facts And Circumstances Test

Explanation

SCHEDULE D
(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization Kettering Medical Center	Employer identification number 31-0621866
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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 Year
a	Total number of conservation easements
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06, and not on a historic structure listed in the National Register

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 XIII, 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 XIII, 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

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other

4

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

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 XIII and complete the following table

c

Beginning balance

d

Additions during the year

e

Distributions during the year

f

Ending balance

	Amount
1c	
1d	
1e	
1f	

2a

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

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIII. Check here if the explanation has been provided in Part XIII

☐

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

	(a)Current year	(b)Prior year	b (c)Two years back	(d)Three years back	(e)Four years back
1a Beginning of year balance					
b Contributions					
c Net investment earnings, gains, and losses					
d Grants or scholarships					
e Other expenditures for facilities and programs					
f Administrative expenses					
g End of year balance					

2

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

a

Board designated or quasi-endowment

b

Permanent endowment

c

Temporarily restricted endowment

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

3a(i)

Yes

No

(ii) related organizations

3a(ii)

Yes

No

b

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

3b

Yes

No

4

Describe in Part XIII 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		35,852,257		35,852,257
b Buildings	288,000	435,170,869	254,281,955	181,176,914
c Leasehold improvements		3,929,427	2,024,484	1,904,943
d Equipment		369,174,885	214,643,728	154,531,157
e Other		5,098,424		5,098,424
Total. Add lines 1a through 1e (Column (d) must equal Form 990, Part X, column (B), line 10(c).)				378,563,695

Schedule D (Form 990) 2012

Part XI 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 XIII)	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 XIII)	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 XII 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 XIII)	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 XIII)	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 XIII 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, lines 2d and 4b, and Part XII, lines 2d and 4b. Also complete this part to provide any additional information.

Identifier	Return Reference	Explanation
Description of Uncertain Tax Positions Under FIN 48	Part X, Line 2	The Network completed an analysis of its tax positions in accordance with applicable accounting guidance at December 31, 2012 and 2011 and determined that no amounts were required to be recognized in the consolidated financial statements at December 31, 2012 or 2011.

Additional Data

Software ID:
Software Version:
EIN: 31-0621866
Name: Kettering Medical Center

Form 990, Schedule D, Part X, - Other Liabilities

1 (a) Description of Liability	(b) Book Value
Accrued pension liability	6,590,012
Estimated amounts due to third-party payors	8,661,472
Interest rate swap agreements liability	49,328,777
Other long-term liabilities	176,395
Physician income guarantee commitments	273,779
Professional self-insurance liability	16,511,467
Reserve for payroll tax liability	2,397,222
Retirement plans liabilities	578,741
Synthetic lease obligations	5,548,888

SCHEDULE H
(Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

OMB No 1545-0047

2012

Open to Public Inspection

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

Name of the organization
Kettering Medical Center

Employer identification number
31-0621866

Part I

Financial Assistance and Certain Other Community Benefits at Cost

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

7

Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheet 1)			17,332,177	5,913,743	11,418,434	2 020 %
b Medicaid (from Worksheet 3, column a)			36,994,053	29,425,297	7,568,756	1 340 %
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d Total Financial Assistance and Means-Tested Government Programs			54,326,230	35,339,040	18,987,190	3 360 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			1,817,602		1,817,602	0 320 %
f Health professions education (from Worksheet 5)			26,593,219	14,132,720	12,460,499	2 200 %
g Subsidized health services (from Worksheet 6)			23,540,171	8,971,822	14,568,349	2 570 %
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)			399,419		399,419	0 070 %
j Total Other Benefits			52,350,411	23,104,542	29,245,869	5 160 %
k Total. Add lines 7d and 7j			106,676,641	58,443,582	48,233,059	8 520 %

Part II

Community Building Activities

Complete this table if the organization conducted any community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

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

Part III

Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

1

Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No. 15?

1

Yes

2

Enter the amount of the organization's bad debt expense. Explain in Part VI the methodology used by the organization to estimate this amount.

2

5,960,255

3

Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's financial assistance policy. Explain in Part VI the methodology used by the organization to estimate this amount and the rationale, if any, for including this portion of bad debt as community benefit.

3

143,046

4

Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense or the page number on which this footnote is contained in the attached financial statements.

Section B. Medicare

5

Enter total revenue received from Medicare (including DSH and IME).

5

122,349,515

6

Enter Medicare allowable costs of care relating to payments on line 5.

6

118,344,705

7

Subtract line 6 from line 5. This is the surplus (or shortfall).

7

4,004,810

8

Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used.
☐ Cost accounting system ☒ Cost to charge ratio ☐ Other

Section C. Collection Practices

9a

Did the organization have a written debt collection policy during the tax year?

9a

Yes

9b

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

9b

Yes

Part IV

Management Companies and Joint Ventures

(owned 10% or more by officers, directors, trustees, key employees, and physicians—see instructions)

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

Part V

Facility Information

Section A. Hospital Facilities

(list in order of size from largest to smallest—see instructions)
How many hospital facilities did the organization operate during the tax year?
3

Name, address, and primary website address

		Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)	Facility reporting group
1	Kettering Memorial Hospital 3535 Southern Boulevard Kettering, OH 45429 ketteringhealth.org	X	X		X			X			A
2	Sycamore Hospital 4000 Miamisburg-Centerville Road Miamisburg, OH 45342 ketteringhealth.org	X	X		X			X			A
3	Kettering Behavioral Medicine Center 5350 Lamme Road Dayton, OH 45439 ketteringhealth.org	X									A

Part V Facility Information (continued)

Section B. Facility Policies and Practices

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

Kettering Medical Center Group A

Name of hospital facility or facility reporting group

For single facility filers only: line Number of Hospital Facility (from Schedule H, Part V, Section A)

	Yes	No
Community Health Needs Assessment (Lines 1 through 8c are optional for tax years beginning on or before March 23, 2012)		
1 During the tax year or either of the two immediately preceding tax years, did the hospital facility conduct a community health needs assessment (CHNA)? If "No," skip to line 9 If "Yes," indicate what the CHNA report describes (check all that apply)	1	No
a ☐ A definition of the community served by the hospital facility		
b ☐ Demographics of the community		
c ☐ Existing health care facilities and resources within the community that are available to respond to the health needs of the community		
d ☐ How data was obtained		
e ☐ The health needs of the community		
f ☐ Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups		
g ☐ The process for identifying and prioritizing community health needs and services to meet the community health needs		
h ☐ The process for consulting with persons representing the community's interests		
i ☐ Information gaps that limit the hospital facility's ability to assess the community's health needs		
j ☐ Other (describe in Part VI)		
2 Indicate the tax year the hospital facility last conducted a CHNA 20 ____		
3 In conducting its most recent CHNA, did the hospital facility take into account input from representatives of the community served by the hospital facility, including those with special knowledge of or expertise in public health? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3	
4 Was the hospital facility's CHNA conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4	
5 Did the hospital facility make its CHNA report widely available to the public? If "Yes," indicate how the CHNA report was made widely available (check all that apply)	5	
a ☐ Hospital facility's website		
b ☐ Available upon request from the hospital facility		
c ☐ Other (describe in Part VI)		
6 If the hospital facility addressed needs identified in its most recently conducted CHNA, indicate how (check all that apply to date)		
a ☐ Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA		
b ☐ Execution of the implementation strategy		
c ☐ Participation in the development of a community-wide plan		
d ☐ Participation in the execution of a community-wide plan		
e ☐ Inclusion of a community benefit section in operational plans		
f ☐ Adoption of a budget for provision of services that address the needs identified in the CHNA		
g ☐ Prioritization of health needs in its community		
h ☐ Prioritization of services that the hospital facility will undertake to meet health needs in its community		
i ☐ Other (describe in Part VI)		
7 Did the hospital facility address all of the needs identified in its most recently conducted CHNA? If "No," explain in Part VI which needs it has not addressed and the reasons why it has not addressed such needs	7	
8a Did the organization incur an excise tax under section 4959 for the hospital facility's failure to conduct a CHNA as required by section 501(r)(3)?	8a	
b If "Yes" to line 8a, did the organization file Form 4720 to report the section 4959 excise tax?	8b	
c If "Yes" to line 8b, what is the total amount of section 4959 excise tax the organization reported on Form 4720 for all of its hospital facilities? \$_____		

Part V

Facility Information (continued)

Financial Assistance Policy		Yes	No
9 Did the hospital facility have in place during the tax year a written financial assistance policy that Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?		9 Yes	
10 Used federal poverty guidelines (FPG) to determine eligibility for providing <i>free</i> care? If "Yes," indicate the FPG family income limit for eligibility for free care <u>100 00000000000000</u> % If "No," explain in Part VI the criteria the hospital facility used		10 Yes	
11 Used FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>300 00000000000000</u> % If "No," explain in Part VI the criteria the hospital facility used		11 Yes	
12 Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply)		12	No
a ☐ Income level			
b ☐ Asset level			
c ☐ Medical indigency			
d ☐ Insurance status			
e ☐ Uninsured discount			
f ☐ Medicaid/Medicare			
g ☐ State regulation			
h ☐ Other (describe in Part VI)			
13 Explained the method for applying for financial assistance?		13 Yes	
14 Included measures to publicize the policy within the community served by the hospital facility? If "Yes," indicate how the hospital facility publicized the policy (check all that apply)		14	No
a ☐ The policy was posted on the hospital facility's website			
b ☐ The policy was attached to billing invoices			
c ☐ The policy was posted in the hospital facility's emergency rooms or waiting rooms			
d ☐ The policy was posted in the hospital facility's admissions offices			
e ☐ The policy was provided, in writing, to patients on admission to the hospital facility			
f ☐ The policy was available upon request			
g ☐ Other (describe in Part VI)			
Billing and Collections			
15 Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?		15 Yes	
16 Check all of the following actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP			
a ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ Other similar actions (describe in Part VI)			
17 Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP? If "Yes," check all actions in which the hospital facility or a third party engaged		17	No
a ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ Other similar actions (describe in Part VI)			

Part V

Facility Information (continued)

- 18
- Indicate which efforts the hospital facility made before initiating any of the actions listed in line 17 (check all that apply)
- a

☒

Notified individuals of the financial assistance policy on admission
- b

☐

Notified individuals of the financial assistance policy prior to discharge
- c

☒

Notified individuals of the financial assistance policy in communications with the patients regarding the patients' bills
- d

☒

Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy
- e

☐

Other (describe in Part VI)

Policy Relating to Emergency Medical Care

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

Charges to Individuals Eligible for Assistance under the FAP (FAP-Eligible Individuals)

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

Part V

Facility Information (continued)

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

(list in order of size, from largest to smallest)

How many non-hospital health care facilities did the organization operate during the tax year?

9

Name and address	Type of Facility (describe)
1 Kettering Sports Medicine 3490 Far Hills Ave Kettering, OH 45249	Outpatient Clinic & Diagnostic Center
2 Kettering Sports Medicine 2145 N Fairfield Rd Suite D Beavercreek, OH 45431	Outpatient Clinic & Diagnostic Center
3 Kettering Sports Medicine 25 S Tippecanoe Drive Tipp City, OH 45371	Outpatient Clinic & Diagnostic Center
4 Sugarcreek Health Center 6438 Wilmington Pike Dayton, OH 45459	Outpatient Clinic & Diagnostic Center
5 Wound Healing & Hyperbaric Medicine 4881 Sugar Maple Dr WPAFB Fairborn, OH 45433	Diagnostic & Treatment Center
6 Englewood Health Center 1250 W National Road Suites 200500 Clayton, OH 45315	Urgent Care & Diagnostic Center
7 Franklin Physical Therapy & Fitness 333 Conover Drive Suite 1 Franklin, OH 45005	Physical Therapy Facility
8 Sycamore Primary Care Center 2115 Leiter Road Miamisburg, OH 45342	Outpatient Physician Clinic & Diagnostic Center
9 Indian Ripple Family Health Center 4428 Indian Ripple Road Dayton, OH 45440	Outpatient Physician Clinic
10	

Part VI

Supplemental Information

Complete this part to provide the following information

- 1
- Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, Part V, Section A, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 10, 11, 12h, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22
- 2
- Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc)
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report
- 8
- Facility reporting group(s).** If applicable, for each hospital facility in a facility reporting group provide the descriptions required for Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 10, 11, 12h, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22

Identifier	ReturnReference	Explanation
		Part I, Line 6a The organization provides an annual community benefit report that is made available to the public
		Part I, Line 7 Charity care is calculated using a cost to charge ratio following the methodology of Worksheet 2 Medical costs are calculated using a cost accounting system that addresses all patient segments Community health improvement services are calculated on the basis of direct expenditures Health professions education is calculated based on the Medicare cost report Subsidized health services is calculated based on the non-Medicare, Medicaid and charity care proportion of departmental losses for the specific programs Cash and in-kind contributions are calculated on the basis of direct expenditures

Identifier	ReturnReference	Explanation
		Part I, Line 7g Subsidized health services represent the non-needs based and non-Medicare program losses of services the hospital offers
		Part III, Line 4 A cost to charge ratio was used to determine the amount reported in Part III, Line 2 An industry average was used to compute the amount on Line 3 Discounts and payments on patient accounts reduce bad debt expense No portion of bad debt expense is reported as community benefit The excerpt from the footnote in the audited financial statements on bad debt expenses is as follows "Based on historical experience, a significant portion of the Network's uninsured patients will be unable or unwilling to pay for the services provided Thus, the Network records a significant provision for bad debts related to uninsured patients in the period the services are provided "

Identifier	ReturnReference	Explanation
		Part III, Line 8 The costing methodology used to determine Medicare costs is the Medicare cost report The Medicare costs have not been included in community benefit in Part I A reconciliation between Medicare program amounts reportable in Section B and the total Medicare program is below Revenues Costs Surplus(Shortfall)Medicare Section B \$122,349,515 \$118,344,705 \$ 4,004,810Other Programs \$ 81,645,423 \$103,237,337 (\$21,591,914)Total \$203,994,938 \$221,582,042 (\$17,587,104)Other Medicare Programs include Medicare Part C and clinical laboratory and therapy services not reportable in the Medicare cost report
		Part III, Line 9b Financial counselors work out a payment program for any amount due after the Charity Sliding Scale Discounts are applied Collection procedures consistent with self-pay accounts are applied to these balances

Identifier	ReturnReference	Explanation
		Part V , Section A Each facility listed is required to be licensed, registered or recognized as a healthcare facility under state law
		Part VI, Line 2 Kettering Medical Center, as part of Kettering Health Network, has dedicated an entire department to community outreach and wellness The Community Wellness Department is comprised of four program specialists who coordinate and set up programs, screenings and other events three exercise physiologists, 12 nurses, a dietitian, a physician, and many other resource personnel

Identifier	ReturnReference	Explanation
		Part VI, Line 3 Kettering Medical Center informs and educates patients or persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under Kettering Medical Center's charity care policy as follows -KMC has a financial assistance brochure that is included in all of the patient information kits given at the time of intake or registration into any facility or department -There is information posted in all of the admitting and registration areas about charity care and financial assistance -During the registration process there is specific scripting to ask patients if they would like to disclose family size and income to screen them for federal/state/local and hospital based charity/assistance programs This data is available for future visits as well -KMC has the reporting capability to review and screen any patient who may have been admitted during registration "off hours" for eligibility and assistance -KMC contracts with an outside agency for patient assistance in application process -The back of the patient statement shows the current and prior year Federal Poverty Guidelines and has the Financial Assistance Form to complete and mail in for consideration for KMC's HCAP or Charity Sliding Scale program -KMC's patient account representatives in customer service screen patients that are unable to pay their bill for the various financial assistance programs
		Part VI, Line 4 KHN serves a population of 1,631,000 in its primary and secondary service area The nine county service area includes Butler, Clark, Clinton, Darke, Greene, Miami, Montgomery, Preble and Warren counties Out of this service area, 11 2% of area residents have income below \$15,000 10 3% have income between \$15,000 and \$24,000 and 27 3% have income between \$25,000 and \$49,999 Portions of Darke and Montgomery counties have been identified as medically underserved by the Health Resources and Services Administration This nine county area is served by 15 hospitals, 8 of which are part of Kettering Health Network

Identifier	ReturnReference	Explanation
		Part VI, Line 5 Kettering Medical Center furthers its exempt purpose by promoting the health of the community by - Retaining a Board of Directors with a majority (excluding employees and contractors)living in the primary service area,- Extending medical staff privileges to all qualified physicians in its community for a majority of its departments,-Utilizing surplus funds to help support ongoing improvements in patient care through equipment upgrades, acquisition of the most advanced medical technology, upgrades of exisging hospital structures and construction of new facilities in order to provide accessible, efficient, quality care Medical and nursing education programs are also enhanced through purchase of state-of-the-art educational tools and dedicated learning centers of excellence Medical research is supported through the Innovation Center, cultivating new technologies and fostering best practices among partners from industry, academia and health care
		Part VI, Line 6 KMC and its affiliates promote the health of the communities served by the system as described below Kettering Medical Center, a part of the Kettering Health Network, is dedicated to the creation and maintenance of community wellness programs, support groups and health education programs KMC provides numerous screenings, family-focused classes, health fairs, conferences, donations and education programs to ensure the long-term well-being of people living in the community The Kettering Medical Center Foundation serves donors by providing assistance in fulfilling philanthropic wishes and maintaining an efficient conduit for gifts to benefit KMC and its affiliated programs and facilities The Foundation manages over 140 funds in support of programs, offering donors the confidence that their donations will meaningfully influence the program they choose to support Kettering College of Medical Arts is a bachelor's and master's degree-granting college with programs in human biology, nursing, medical sonography, physician assistant studies, radiology technology and respiratory therapy Associate degree options are available for some programs of study An average of 820 students prepare each year for service to the wider community The college is owned by KMC and is chartered by the Seventh-day Adventist Church, for whom health care has always been a key ministry to the wider public Kettering Affiliated Health Services, Inc includes Sycamore Glen Health Center, Sycamore Glen Retirement Community, and Kettering Breast Evaluation Centers These health care areas provide services to the surrounding communities which complement those services provided by KMC as part of the Kettering Health Network Medical research is supported through the Innovation Center cultivating new technologies and fostering best practices among partners from industry, academia and health care

Identifier	ReturnReference	Explanation
Reports Filed With States	Part VI, Line 7	OH
Part V, Line 8 Facility Reporting Group A		See below

Identifier	ReturnReference	Explanation
Facility 1 -- Kettering Memorial Hospital	Part V, Section B, line 20d	The hospital provided a discount on medically necessary hospital services to uninsured patients who do not qualify under the charity care policy
Facility 1 -- Kettering Memorial Hospital	Part V, Section B, line 22	The hospital charged patients an amount equal to gross charges in select circumstances. This includes, for example, claims for insurance denials for non-cooperation

Identifier	ReturnReference	Explanation
Facility 2 -- Sycamore Hospital	Part V, Section B, line 20d	The hospital provided a discount on medically necessary hospital services to uninsured patients who do not qualify under the charity care policy
Facility 2 -- Sycamore Hospital	Part V, Section B, line 22	THE HOSPITAL CHARGED PATIENTS AN AMOUNT EQUAL TO GROSS CHARGES IN SELECT CIRCUMSTANCES THIS INCLUDES, FOR EXAMPLE, CLAIMS WITH INSURANCE DENIALS FOR NON-COOPERATION

Identifier	ReturnReference	Explanation
Facility 3 -- Kettering Behavioral Medicine Center	Part V, Section B, line 20d	The hospital provided a discount on medically necessary hospital services to uninsured patients who do not qualify under the charity care policy
Facility 3 -- Kettering Behavioral Medicine Center	Part V, Section B, line 22	THE HOSPITAL CHARGED PATIENTS AN AMOUNT EQUAL TO GROSS CHARGES IN SELECT CIRCUMSTANCES THIS INCLUDES, FOR EXAMPLE, CLAIMS WITH INSURANCE DENIALS FOR NON-COOPERATION

Schedule I
(Form 990)

Department of the Treasury
Internal Revenue Service

Name of the organization
Kettering Medical Center

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

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

OMB No 1545-0047

2012

Open to Public
Inspection

Employer identification number
31-0621866

Part I General Information on Grants and Assistance

1

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

☒ Yes ☐ No

2

Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States

Part II Grants and Other Assistance to Governments and Organizations in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 21, for any recipient that received more than \$5,000. Part II can be duplicated if additional space is needed.

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance

2

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

▶

3

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

▶

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
(1) Employee Hardship	175	43,211			
(2) Scholarships	139	115,199			

Part IV

Supplemental Information.

Complete this part to provide the information required in Part I, line 2, Part III, column (b), and any other additional information

Identifier	Return Reference	Explanation
Procedure for Monitoring Grants in the U S	Part I, Line 2	Schedule I, Part I, Line 2 KMC employees may apply for up to \$300 per qualifying hardship event The lifetime maximum for an employee is capped at \$400 KC maintains the criteria used for awarding institutional scholarships Some of the scholarships awarded by KC are based on need, others are awarded strictly based on merit, and others are awarded based on both need and merit

Schedule J
(Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

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

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

▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
Kettering Medical Center

Employer identification number
31-0621866

Part I	Questions Regarding Compensation		Yes	No
1a	Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a. Complete Part III to provide any relevant information regarding these items. ☐ First-class or charter travel ☐ Housing allowance or residence for personal use ☐ Travel for companions ☐ Payments for business use of personal residence ☐ Tax idemnification and gross-up payments ☐ Health or social club dues or initiation fees ☐ Discretionary spending account ☐ Personal services (e g , maid, chauffeur, chef)			
b	If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all of the expenses described above? If "No," complete Part III to explain	1b		
2	Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?	2		
3	Indicate which, if any, of the following the 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, but 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?	4a		No
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	4b	Yes	
c	Participate in, or receive payment from, an equity-based compensation arrangement? If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III.	4c		No
	Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.			
5	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of:			
a	The organization?	5a		No
b	Any related organization? If "Yes," to line 5a or 5b, describe in Part III.	5b		No
6	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of:			
a	The organization?	6a		No
b	Any related organization? If "Yes," to line 6a or 6b, describe in Part III.	6b		No
7	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III.	7		No
8	Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regulations section 53.4958-4(a)(3)? If "Yes," describe in Part III.	8		No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53.4958-6(c)?	9		

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

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

Note. The sum of columns (B)(i)-(iii) 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 and Title		(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				
See Additional Data Table								

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.

Identifier	Return Reference	Explanation
	Part I, Line 3	Compensation is established by a related organization. The process of determining compensation of CEO's, executive directors, officers, and key employees is to have an independent board approve the compensation. The compensation is determined to be reasonable compared to independent comparability data. The approval of the amounts is documented in the Board minutes within the appropriate time frame. At year end the organization reviews executive compensation by comparing the amounts approved to the amounts paid.
	Part I, Line 4b	The Network has a Supplemental Executive Retirement Plan available only to a certain class of management.
Supplemental Information	Part III	Part II, Col BIII. Column BIII includes compensation reported on the W-2 that may or may not have been included in the current year Statement of Operations and Changes in Net Assets.

Software ID:
Software Version:
EIN: 31-0621866
Name: Kettering Medical Center

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

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base Compensation	(ii) Bonus & incentive compensation	(iii) Other compensation				
Roy Chew	(i)	0	0	0	0	0	0	0
	(ii)	788,934	101,980	1,217,454	476,103	21,771	2,606,242	898,332
Fred Manchur	(i)	0	0	0	0	0	0	0
	(ii)	1,115,235	191,039	85,523	373,845	16,415	1,782,057	0
Dave Weigley	(i)	0	0	10,000	0	0	10,000	0
	(ii)	0	0	0	0	0	0	0
Brett Spent	(i)	0	0	0	0	0	0	0
	(ii)	445,302	70,159	233,118	13,687	15,599	777,865	0
Steve Chavez	(i)	0	0	0	0	0	0	0
	(ii)	152,417	0	700	0	17,450	170,567	0
Mark Smith	(i)	0	0	0	0	0	0	0
	(ii)	379,840	50,985	2,950	13,687	24,125	471,587	0
Brenda Kuhn	(i)	0	0	0	0	0	0	0
	(ii)	326,124	42,176	4,076	13,687	21,142	407,205	0
Walter Sackett	(i)	0	0	0	0	0	0	0
	(ii)	291,670	30,593	3,390	13,687	23,059	362,399	0
Deanette Sisson	(i)	0	0	0	0	0	0	0
	(ii)	165,731	23,133	3,924	11,381	12,627	216,796	0
Robert Smith	(i)	269,540	23,172	2,756	13,987	11,707	321,162	0
	(ii)	0	0	0	0	0	0	0
Rebekah Wang-Cheng MD	(i)	248,091	22,146	1,170	13,987	4,383	289,777	0
	(ii)	0	0	0	0	0	0	0
Christina Turner	(i)	0	0	0	0	0	0	0
	(ii)	232,988	29,928	0	13,572	5,161	281,649	0
Donna Arand	(i)	91,450	158,917	2,051	13,987	647	267,052	0
	(ii)	0	0	0	0	0	0	0
Timothy Dutton	(i)	227,926	11,239	3,562	8,410	15,343	266,480	0
	(ii)	0	0	0	0	0	0	0
Frank Perez	(i)	0	0	0	0	0	0	0
	(ii)	204,000	0	0	0	0	204,000	0

Schedule K
(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Information on Tax Exempt Bonds

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

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
Kettering Medical Center

Employer identification number
31-0621866

Part I Bond Issues

(a) Issuer name	(b) Issuer EIN	(c) CUSIP #	(d) Date issued	(e) Issue price	(f) Description of purpose	(g) Defeased		(h) On behalf of issuer		(i) Pool financing	
						Yes	No	Yes	No	Yes	No
A County of Butler Ohio	31-6000061	123550GJ8	07-13-2011	120,548,832	Construction and equipment of a hospital		X		X		X
B County of Montgomery Ohio	31-6000172		12-10-2011	100,155,421	Current refund		X		X		X
C County of Montgomery Ohio	31-6000172		05-01-2012	78,768,109	Current refund		X		X		X

Part II Proceeds

		A		B		C		D	
1	Amount of bonds retired								
2	Amount of bonds legally defeased								
3	Total proceeds of issue	121,509,413		100,155,421		78,768,109			
4	Gross proceeds in reserve funds								
5	Capitalized interest from proceeds								
6	Proceeds in refunding escrows								
7	Issuance costs from proceeds	764,259		89,787		412,825			
8	Credit enhancement from proceeds								
9	Working capital expenditures from proceeds								
10	Capital expenditures from proceeds	120,731,865							
11	Other spent proceeds	100,065,634		100,065,634		78,355,284			
12	Other unspent proceeds	13,289							
13	Year of substantial completion	2012		2011		2012			
		Yes	No	Yes	No	Yes	No	Yes	No
14	Were the bonds issued as part of a current refunding issue?		X	X		X			
15	Were the bonds issued as part of an advance refunding issue?		X		X		X		
16	Has the final allocation of proceeds been made?		X	X		X			
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X		X		X			

Part III Private Business Use

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

Part III Private Business Use (Continued)

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use of bond-financed property?	X		X		X			
b	If "Yes" to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?	X		X		X			
c	Are there any research agreements that may result in private business use of bond-financed property?	X		X		X			
d	If "Yes" to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?	X		X		X			
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government	0 00000%		0 00000%		0 00000%		%	
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government	0 00000%		0 00000%		0 00000%		%	
6	Total of lines 4 and 5	0 00000%		0 00000%		0 00000%		%	
7	Does the bond issue meet the private security or payment test?	X		X		X			
8a	Has there been a sale or disposition of any of the bond financed property to a nongovernmental person other than a 501(c)(3) organization since the bonds were issued?		X		X		X		
b	If "Yes" to line 8a, enter the percentage of bond-financed property sold or disposed of	%		%		%		%	
c	If "Yes" to line 8a, was any remedial action taken pursuant to Regulations sections 1.141-12 and 1.145-2?								
9	Has the organization established written procedures to ensure that all nonqualified bonds of the issue are remediated in accordance with the requirements under Regulations sections 1.141-12 and 1.145-2?		X		X		X		

Part IV Arbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has the issuer filed Form 8038-T?		X		X		X		
2	If "No" to line 1, did the following apply?								
a	Rebate not due yet?		X		X		X		
b	Exception to rebate?	X		X			X		
c	No rebate due?		X		X		X		
	If you checked "No rebate due" in line 2c, provide in Part VI the date the rebate computation was performed								
3	Is the bond issue a variable rate issue?		X	X			X		
4a	Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?		X	X			X		
b	Name of provider	Merrill Lynch Capital Services		Merrill Lynch Capital Services					
c	Term of hedge	16 2000000000000		16 2000000000000					
d	Was the hedge superintegrated?		X		X				
e	Was a hedge terminated?		X		X				

Part IV

Arbitrage (Continued)

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
5a	Were gross proceeds invested in a guaranteed investment contract (GIC)?		X		X		X		
b	Name of provider								
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
6	Were any gross proceeds invested beyond an available temporary period?		X		X		X		
7	Has the organization established written procedures to monitor the requirements of section 148?	X		X		X			

Part V

Procedures To Undertake Corrective Action

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations?	X		X		X			

Part VI

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

Identifier	Return Reference	Explanation
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Schedule L
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Transactions with Interested Persons

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

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization Kettering Medical Center	Employer identification number 31-0621866
--	--

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

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

1	(a) Name of disqualified person	(b) Relationship between disqualified person and organization	(c) Description of transaction	(d) Corrected?	
				Yes	No

2 Enter the amount of tax incurred by organization managers or disqualified persons during the year under section 4958 ▶ \$

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

Part II Loans to and/or From Interested Persons.

Complete if the organization answered "Yes" on Form 990-EZ, Part V, line 38a, or Form 990, Part IV, line 26, or if the organization reported an amount on Form 990, Part X, line 5, 6, or 22

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

Part III Grants or Assistance Benefitting Interested Persons.

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

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of assistance	(d) Type of assistance	(e) Purpose of assistance

Part IV Business Transactions Involving Interested Persons.

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

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) Julie Sackett	See below	32,278	Compensation		No
(2) Rachel Drusen	See below	78,208	Compensation		No
(3) Christina Keresoma	See below	12,988	Compensation		No

Part V Supplemental Information

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

Identifier	Return Reference	Explanation
Part IV	Relationship	Julie Sackett is a family member of Walter Sackett, Key Employee
Part IV	Relationship	Rachel Drusen is a family member of Brenda Kuhn, Key employee
Part IV	Relationship	Christina Keresoma is a family member of Fred Manchur, Board Member

SCHEDULE O
(Form 990 or 990-EZ)Department of the Treasury
Internal Revenue Service**Supplemental Information to Form 990 or 990-EZ****Complete to provide information for responses to specific questions on
Form 990 or to provide any additional information.**
▶ **Attach to Form 990 or 990-EZ.**

OMB No 1545-0047

2012**Open to Public
Inspection**Name of the organization
Kettering Medical Center**Employer identification number**

31-0621866

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section B, line 11	A tax specialist is engaged to review the 990 The 990 is reviewed and accepted by the audit committee which reports this to the governing body (board)
	Form 990, Part VI, Section B, line 12c	The Network regularly and consistently monitors and enforces compliance with the conflict of interest policy by making it part of the employees' annual reviews Employees must certify that they have read the conflict of interest policy and have disclosed any potential conflicts and agree to immediately notify Corporate Integrity if one should arise Board members are required to annually review the Network's policy, sign a conflict of interest statement, and notify the Network if a conflict should arise
	Form 990, Part VI, Section B, line 15	The process of determining compensation of CEO's, executive directors, officers, and key employees is to have an independent board approve the compensation The compensation is determined to be reasonable compared to independent comparability data The approval of the amounts is documented in the Board minutes within the appropriate time frame At year end the organization reviews executive compensation by comparing the amounts approved to the amounts paid
	Form 990, Part VI, Section C, line 19	The organization's governing documents, conflict of interest policy, and financial statements are available upon request
Officers Compensation	Part VII, Section A	Brett Spent was the financial officer until November 2012 Steve Chavez was the financial officer from November 2012 to present
Changes in Net Assets or Fund Balances	Form 990, Part XI, line 9	Net transfers to affiliate -71,940,493 Other changes, net 87,000
	Pt XII, Line 3b	The organization operates an accredited college that receives federal funds As such it is required to have an A-133 audit The organization has completed the A-133 audit

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

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

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
Kettering Medical Center

Employer identification number
31-0621866

Part I Identification of Disregarded Entities (Complete if the organization answered "Yes" to Form 990, Part IV, line 33.)					
(a) Name, address, and EIN (if applicable) of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)							
(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled entity?	
						Yes	No
See Additional Data Table							

Part III

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income(related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end- of-year assets	(h) Disproprtionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
(1) Premier Purchasing Partners 1225 El Camino Real Suite 100 San Diego, CA 92130 33-0387407	Purchasing Contracts	OH	N/A	Related	2,368,836	2,719,180		No	39,372		No	0 650 %

Part IV

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end- of-year assets	(h) Percentage ownership	(i) Section 512 (b)(13) controlled entity?	
								Yes	No
(1) Kettcor 2110 Leiter Road Miamisburg, OH 45342 31-1078381	Health Services	OH	Kettering Adventist Healthcare	C					No

Part V

Transactions With Related Organizations (Complete if the organization answered "Yes" to Form 990, Part IV, line 34, 35b, 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 Dividends from related organization(s)

g Sale of assets to related organization(s)

h Purchase of assets from related organization(s)

i Exchange of assets with related organization(s)

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

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

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

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

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

o Sharing of paid employees with related organization(s)

p Reimbursement paid to related organization(s) for expenses

q Reimbursement paid by related organization(s) for expenses

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

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

Yes

No

1a Yes

1b No

1c Yes

1d No

1e No

1f No

1g No

1h No

1i No

1j No

1k No

1l Yes

1m Yes

1n Yes

1o Yes

1p No

1q Yes

1r Yes

1s No

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

(a) Name of other organization	(b) Transaction type (a-s)	(c) Amount involved	(d) Method of determining amount involved
See Additional Data Table			

Schedule R (Form 990) 2012

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

[illegible]

Software ID:

Software Version:

EIN: 31-0621866

Name: Kettering Medical Center

Part VII

Supplemental Information

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

Identifier	Return Reference	Explanation
Transactions with related organizations	PART V LINE #2	Kettering Medical Center is the conduit through which revenue is received and expenses are paid

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

(a) Name of other organization	(b) Transaction type(a-s)	(c) Amount Involved	(d) Method of determining amount involved
Kettcor	A	231,028	FMV
Kettering Medical Center Foundation	C	1,806,178	FMV
Kettering Medical Center	L	0	FMV
Kettering Medical Center	M	0	FMV
Kettering Medical Center	N	0	FMV
Kettering Medical Center	O	0	FMV
Kettering Medical Center	Q	0	FMV
Kettering Medical Center	R	0	FMV

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Kettering Health Network
Years Ended December 31, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP



Kettering Health Network

Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2012 and 2011

Contents

Report of Independent Auditors	1
Audited Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	5
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Supplementary Information	
Report of Independent Auditors on Supplementary Information	47
Consolidating Balance Sheet	48
Consolidating Statement of Operations and Changes in Net Assets	50

Report of Independent Auditors

The Board of Directors
Kettering Health Network

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kettering Health Network at December 31, 2012 and 2011, and the consolidated results of its operations and changes in net assets, and its cash flows for the years then ended in conformity with U S generally accepted accounting principles

Ernst + Young LLP

April 25, 2013

Kettering Health Network

Consolidated Balance Sheets

(In Thousands)

	December 31	
	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 123,966	\$ 82,484
Current portion of assets whose use is limited	11,097	10,727
Patient accounts receivable, net of allowance for doubtful receivables (2012 – \$55,631, 2011 – \$49,250)	127,155	133,929
Other receivables	28,640	24,712
Inventories	19,116	17,505
Prepaid expenses and other current assets	10,682	8,360
Total current assets	320,656	277,717
Assets whose use is limited		
Board designated	392,313	354,068
Donor or agency restricted	18,903	18,320
Trustee-held assets	23,635	51,286
Total assets whose use is limited	434,851	423,674
Retirement plans assets	10,090	9,291
Unamortized long-term debt issuance costs	3,620	5,778
Property and equipment, net	824,875	800,710
Other long-term assets	37,184	45,521
Total assets	\$ 1,631,276	\$ 1,562,691

	December 31	
	2012	2011
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 65,504	\$ 53,945
Payroll-related liabilities	55,313	43,855
Other accrued liabilities	41,425	35,124
Accrued interest	6,639	5,257
Current portion of deferred revenue	4,179	5,563
Estimated amounts due to third-party payors	5,917	4,299
Current portion of long-term debt	12,076	13,878
Total current liabilities	191,053	161,921
Deferred revenue	7,700	7,145
Accrued pension liability	32,250	26,753
Professional self-insurance liability	42,018	31,938
Other long-term liabilities	52,718	57,724
Interest rate swap agreements liability	50,718	54,979
Long-term debt, net of current portion	590,556	602,460
Total liabilities	967,013	942,920
Net assets		
Unrestricted	642,077	592,940
Temporarily restricted	16,011	20,693
Permanently restricted	6,175	6,138
Total net assets	664,263	619,771
Total liabilities and net assets	\$ 1,631,276	\$ 1,562,691

See accompanying notes.

Kettering Health Network

Consolidated Statements of Operations and Changes in Net Assets (In Thousands)

	Year Ended December 31	
	2012	2011
Unrestricted revenue		
Patient service revenue (net of contractual provision and discount)	\$ 1,219,612	\$ 1,116,600
Provision for bad debts	(69,332)	(55,175)
Net patient service revenue	1,150,280	1,061,425
Other revenue	77,651	72,674
Total unrestricted revenue	1,227,931	1,134,099
Expenses		
Salaries and wages	518,375	476,866
Employee benefits	118,367	119,524
Supplies and other	320,822	291,025
Purchased services	148,016	143,387
Bad debt		
Depreciation	80,507	65,313
Interest	28,367	22,869
Total expenses	1,214,454	1,118,984
Excess of unrestricted revenue over expenses before other income (loss)	13,477	15,115
Other income (loss)		
Income (loss) on interest rate swap agreements	2,357	(23,842)
Other, primarily investment income (loss)	32,331	(4,139)
Loss on early extinguishment of debt	(2,392)	(3,472)
Excess of unrestricted revenue over expenses (expenses over unrestricted revenue) before business combination	45,773	(16,338)
Excess of fair value of assets acquired over liabilities assumed in business combination	—	3,040
Excess of unrestricted revenue over expenses (expenses over unrestricted revenue)	45,773	(13,298)

Continued on next page.

Kettering Health Network

Consolidated Statements of Operations and Changes in Net Assets (continued) (In Thousands)

	Year Ended December 31	
	2012	2011
Unrestricted net assets		
Excess of unrestricted revenue over expenses (expenses over unrestricted revenue)	\$ 45,773	\$ (13,298)
Net assets released from restrictions for capital	11,024	7,652
Change in plan assets and benefit obligation of pension plan	(5,640)	(5,549)
Other changes, net	(2,020)	387
Increase (decrease) in unrestricted net assets	49,137	(10,808)
Temporarily restricted net assets		
Contributions and investment income (loss) from restricted investments	7,753	2,524
Net assets released from restrictions for capital	(11,024)	(7,652)
Net assets released from restrictions for operations	(1,411)	(1,378)
Transfer of net assets under business combination	—	2,559
Decrease in temporarily restricted net assets	(4,682)	(3,947)
Permanently restricted net assets		
Contributions for endowment funds	37	199
Reclassification of net assets under business combination	—	(1,069)
Increase (decrease) in permanently restricted net assets	37	(870)
Increase (decrease) in net assets	44,492	(15,625)
Net assets at beginning of year	619,771	635,396
Net assets at end of year	\$ 664,263	\$ 619,771

See accompanying notes.

Kettering Health Network

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended December 31	
	2012	2011
Operating activities		
Increase (decrease) in net assets	\$ 44,492	\$ (15,625)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	82,030	66,836
Amortization of long-term debt issuance costs	277	545
Loss on early extinguishment of debt	2,392	3,472
(Income) loss on interest rate swap agreements	(2,357)	23,842
Excess of fair value of unrestricted assets over liabilities assumed in business combination, net of cash received	—	(2,750)
Restricted contributions	(6,109)	(2,432)
Net change in unrealized (gains) losses on investments	(6,510)	21,984
Change in plan assets and benefit obligation of pension plan	5,640	5,549
Transfer of net assets under business combination	—	(1,490)
Provision for bad debts	69,332	55,175
Changes in assets and liabilities		
Accounts receivable, net	(66,960)	(67,970)
Inventories	(1,611)	(755)
Prepaid expenses and other current assets	(7,415)	3,014
Assets whose use is limited	(5,063)	45,090
Accounts payable	15,457	(6,887)
Other current liabilities	19,376	(2,606)
Other long-term liabilities	2,793	(12,615)
Net cash provided by operating activities	145,764	112,377
Investing activities		
Additions to property and equipment	(112,241)	(184,908)
Net decrease (increase) in other long-term assets	10,537	(8,815)
Net cash used in investing activities	(101,704)	(193,723)
Financing activities		
Principal payments of long-term debt	(13,572)	(13,217)
Refunding of long-term debt	(94,455)	(177,975)
Proceeds from issuance of long-term debt	94,771	331,960
Draws on line of credit	12,024	196,207
Payments on line of credit	(12,024)	(196,207)
Cost of long-term debt issuance	(504)	(1,108)
Proceeds from restricted contributions	11,182	5,381
Net cash (used in) provided by financing activities	(2,578)	145,041
Increase in cash and cash equivalents	41,482	63,695
Cash and cash equivalents at beginning of year	82,484	18,789
Cash and cash equivalents at end of year	\$ 123,966	\$ 82,484

See accompanying notes

Kettering Health Network

Notes to Consolidated Financial Statements (In Thousands)

December 31, 2012

1. Organization and Significant Accounting Policies

Organization

Kettering Adventist Healthcare dba Kettering Health Network (the Network) is comprised of the obligated group that includes the Kettering Medical Center, which consists of Kettering Memorial Hospital (Kettering Hospital), Kettering Medical Center-Sycamore (Sycamore Hospital), Kettering Behavioral Medical Center and Kettering College, Grandview Medical Center, which includes Dayton Osteopathic Hospital, d b a Grandview Hospital and Medical Center (Grandview Hospital), Southview Hospital and Huber Health Center, and Beavercreek Medical Center d/b/a Indu and Raj Soin Medical Center (Soin Medical Center) (collectively, the Obligated Group) The Network also includes the parent corporation, Kettering Adventist Healthcare (KAH), which includes the operations of Grandcor, Ltd, a captive insurance company Other entities included in the Network's consolidated financial statements are KettCor, Kettering Medical Center Foundation, Kettering Affiliated Health Services, Inc, Alliance Physicians, Greene Memorial Hospital, which consists of Greene Memorial Hospital, Inc, Greene Health Partners, Inc and Greene Foundation (collectively, Greene), and Fort Hamilton Hospital, which includes Fort Hamilton Hospital Foundation (collectively, Fort Hamilton) KAH and Kettering Medical Center are together referred to as the Kettering Affiliates Grandview Hospital, Southview Hospital, and Huber Health Center are collectively referred to as the Grandview Affiliates

All entities are controlled by KAH and are consolidated All significant intercompany balances and transactions have been eliminated upon consolidation

The Kettering Medical Center Foundation, a not-for-profit corporation, exists for the purpose of soliciting and receiving contributions for the sole benefit of the Network Kettering Affiliated Health Services, Inc operates Sycamore Glen Health Center, Sycamore Glen Retirement Community and other not-for-profit health care-related operations Sycamore Glen Retirement Community is a retirement housing complex consisting of cottage apartments and a mid-rise building with apartment units

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Significant Accounting Policies (continued)

The Network provides health care services through Kettering Hospital, Sycamore Hospital, Grandview Hospital, Southview Hospital, Sycamore Glen Health Center, Kettering Behavioral Medical Center, Greene Memorial Hospital, Fort Hamilton Hospital and Soin Medical Center, which opened for business on February 23, 2012 (collectively, the Hospital)

The Network operates the Kettering College, a division of Kettering Hospital, offering a curriculum primarily in the allied health professions

Fair Value Measurements

The Network follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, and as noted above, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs utilize quoted market prices in active markets for identical assets or liabilities that the Network has the ability to access
- Level 2 – Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Significant Accounting Policies (continued)

- Level 3 – Inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Network's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

In order to meet the requirements of ASC 820, the Network utilizes three basic valuation approaches to determine the fair value of its assets and liabilities required to be recorded at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to replace the respective asset or liability. The second approach is the market approach. The market approach looks at what a market participant would consider an exact or similar asset or liability to that of the Network, including those traded on exchanges, to be valued at. The third approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of the Network's respective asset or liability expected by a market participant and discounts those cash flows back to present value (more typically referred to as a discounted cash flow approach).

Cash and Cash Equivalents

The Network considers highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Net Patient Accounts Receivable

Net patient accounts receivable is reduced by an allowance for doubtful receivables based upon the historical collection experience of each of the Hospitals adjusted for current environmental risks and trends for each major payor source. The Network's allowance for doubtful receivables is generally self-pay patient accounts receivable and is in the period of service based on past collection experience. The total of write-offs of uncollectible accounts and reserves as a percentage of self-pay patient accounts has not changed significantly since December 31, 2011. The Network has not experienced significant changes in write-off trends and has not changed its charity care policy since December 31, 2011.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Significant Accounting Policies (continued)

Assets Whose Use Is Limited

Assets whose use is limited include board-designated funds for the acquisition of property and equipment, funds restricted by donors for charitable purposes, funds to cover self-insurance liabilities, trustee-held assets for the retirement of long-term liabilities, and the funding of certain capital projects. These funds have been classified as noncurrent assets except for amounts required to meet current liabilities which are classified as the current portion of assets whose use is limited. Assets whose use is limited in its entirety are classified as trading securities.

Investment income (including interest and dividend earnings, net realized gains on investments, and net change in unrealized gains (losses) on investments) is primarily included in the excess of unrestricted revenue over expenses (expenses over unrestricted revenue) as other, primarily investment income (loss) unless the investment income (loss) is restricted by donor or law.

The global financial markets and banking system are subject to volatility which could adversely impact the Network. Certain of the Network's assets and liabilities are exposed to various risks such as interest rate, market, and credit risks.

Inventories

Inventories (primarily supplies and pharmaceuticals) are valued using the lower of cost (first-in, first-out method) or market.

Property and Equipment

Property and equipment are stated at historical cost except for donated or impaired items, which are recorded at fair market value at the date of donation or determination. Expenditures, which materially increase values, change capacities or extend useful lives, are capitalized. Depreciation, which includes amortization related to capital leases, is computed utilizing the straight-line method over the expected useful lives of the assets which range from 3 to 40 years. Total depreciation expense was \$82,030 and \$66,836 for the years ended December 31, 2012 and 2011, respectively, and is primarily included in depreciation expense.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Significant Accounting Policies (continued)

The cost and related accumulated depreciation of property and equipment that are sold or retired are removed from the respective accounts and the resulting gain or loss is recorded in supplies and other, when the property is used in operations. Gains or losses on sales of property and equipment held for investment purposes are recorded in other, primarily investment income (loss).

Select property and equipment purchased prior to year-end is excluded from the additions to property and equipment in the consolidated statements of cash flows as cash payment was not made at the end of the year. These excluded additions at December 31, 2012 and 2011, were \$4,910 and \$8,734, respectively.

The Network evaluates the carrying value of long-lived assets and the related estimated remaining lives when events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. Any resulting impairment losses or additional required depreciation due to shortened useful lives are reflected as other, primarily investment income (loss) in the consolidated statements of operations and changes in net assets. No impairment was recognized in 2012 or 2011.

Unamortized Long-Term Debt Issuance Costs

Unamortized long-term debt issuance costs, represent costs associated with the issuance of hospital facilities revenue bonds or other long-term debt transactions and are amortized using the effective interest method over the term of the related long-term debt.

Investments in Unconsolidated Organizations

The Network maintains an ownership percentage of 50% or less in various joint ventures and other companies that do not require consolidation. Certain of these investments are accounted for using the equity method of accounting. The aggregate value of investments in unconsolidated organizations accounted for under the equity method of accounting is \$13,440 and \$12,329 at December 31, 2012 and 2011, respectively, and is included in other long-term assets.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Significant Accounting Policies (continued)

Goodwill and Identifiable Intangible Assets

Other long-term assets include goodwill and identifiable intangible assets. The carrying value of identifiable intangible assets is \$4,018 and \$5,100 at December 31, 2012 and 2011, respectively. Identifiable intangible assets are amortized over their estimated expected life which ranges from six months to ten years. Amortization expense related to identifiable intangible assets was \$1,293 and \$1,131 for the years ended December 31, 2012 and 2011, respectively, and is included in supplies and other expenses. The carrying value of goodwill is \$11,358 at both December 31, 2012 and 2011 and is included in other long-term assets. The Network annually performs an evaluation of goodwill for impairment considering qualitative and quantitative factors. There was no impairment loss recognized in 2012 or 2011.

Deferred Revenue

The Network's independent living community, Sycamore Glen Retirement Community, offers four types of resident agreements with regard to the onetime entrance fee paid in addition to the monthly service fees. The portion of the entrance fee that is refundable under these resident agreements varies from 25% to 100%. Additionally, some of the resident agreements include entrance fees that are not refundable.

Beginning in 2004, new resident agreements for residents were changed to stipulate that all or a portion of the entrance fees become refundable when the contract holder's unit is reoccupied by another person. The portion of the fees that will be paid to current residents or their designees, only to the extent of the proceeds of reoccupancy of a contract holder's unit, are accounted for as deferred revenue and considered a long-term liability. Prior to the change in resident agreements, the entrance fee was refundable within five months of termination of the resident agreement. The entrance fees associated with these resident agreements are recorded as current liability.

In July 2012, the FASB issued Accounting Standards Update (ASU) 2012-01, *Continuing Care Retirement Communities-Refundable Advance Fees, to amend ASC 954, Health Care Entities*. The amendments in ASU 2012-01 affect continuing care retirement communities that have resident contracts that provide for a payment of a refundable advance fee upon reoccupancy of that unit by a subsequent resident. The amendments in ASU 2012-01 clarify that an entity should classify an advance fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advance fee upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Significant Accounting Policies (continued)

Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability. For public and nonpublic entities, the amendments in this ASU are effective for annual and interim reporting periods beginning on or after December 15, 2013. Early adoption is permitted. The Network elected to early adopt this amendment in ASU 2012-01 for year ended December 31, 2012. The adoption of ASU 2012-01 did not have a material impact on the Network's consolidated statements of operations and changes in net assets, cash flows, or financial position.

Description of Net Asset Classes

Net assets are classified into three categories. Temporarily restricted net assets are those whose use by the Network has been limited by donors to a specific time period or purpose, and are restricted primarily for education services, clinical research programs, and capital expenditures. Permanently restricted net assets have been restricted by donors to be maintained by the Network in perpetuity and are primarily restricted in support of the Network's mission. All other net assets are considered unrestricted.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Network 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 or the condition is met. 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 the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions for capital or operations.

Net assets released from restriction for operations are shown as a reduction to supplies and other expense in the consolidated statements of operations and changes in net assets. The amount of net assets released from restriction for operations was \$1,411 and \$1,378 for the years ended December 31, 2012 and 2011, respectively.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Significant Accounting Policies (continued)

Net Patient Service Revenue

Net patient service revenue for services provided to patients who have third-party payor coverage is recognized based on contractual rates for the services rendered. Amounts recognized are subject to adjustment upon review by third-party payors. The Network recognizes a significant amount of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay. As a result, the provision for bad debts is presented as a deduction from patient service revenue (net of contractual provision and discounts). For uninsured patients that do not qualify for charity care, the Network recognizes revenue when services are provided. Based on historical experience, a significant portion of the Network's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Network records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual provision and discounts (but before the provision for bad debts), recognized for the year ended December 31 by major payor source, is as follows:

	2012	2011
Medicare	\$ 546,757	\$ 506,443
Medicaid	157,064	113,901
Commercial and other third party	437,870	423,840
Self-pay	77,921	72,416
Total	<u>\$ 1,219,612</u>	<u>\$ 1,116,600</u>

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Significant Accounting Policies (continued)

Third-Party Reimbursement Activities

The amounts related to third-party reimbursement activities, reported in the consolidated financial statements represent estimated settlements outstanding at December 31, 2012 and 2011, which the Network's management believes will approximate the final settlements after audit by the governmental agencies or other third-party payors. Amounts reported in the consolidated financial statements consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Other current receivables	\$ 11,934	\$ —
Estimated amounts due to third-party payors	(5,917)	(4,299)
Other long-term liabilities	(2,438)	(3,800)
	<u>\$ 3,579</u>	<u>\$ (8,099)</u>

Reimbursement for the majority of Medicare and Medicaid inpatient services and for Medicare capital costs is based on a prospectively determined fixed price, which varies, based on the illness or medical severity diagnostic related group (MS-DRG). The Network receives reimbursement for services provided under the Medicare and Medicaid programs for outpatients at amounts which approximate either the cost of providing the services or at fees based upon established rates. Reimbursement for the majority of Medicare outpatient services is based on a prospectively determined fixed price, which varies based on the ambulatory payment classification (APC). The Network recognizes contractual adjustments for the Medicare and Medicaid programs when the related patient service revenue is reported in the consolidated financial statements. These contractual adjustments represent the difference between established rates and the MS-DRG and APC payments and established reimbursement on a cost or fee schedule basis.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Network believes that it is in compliance with all applicable laws and regulations.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Significant Accounting Policies (continued)

During the normal course of business, the Network settles prior years' third-party receivables and liabilities for amounts different than previously estimated. The effect of these settlements and other changes in estimates resulted in an increase in net patient service revenue of \$10,113 in 2012 (\$3,274 in 2011).

The Network was a party to a settlement agreement dated April 5, 2012 with the United States Department of Health and Human Services (HHS), the Secretary of HHS and the Centers for Medicare & Medicaid Services (CMS). The Network, along with a group of other Medicare providers, had challenged CMS' implementation of the rural floor neutrality provisions of the Balanced Budget Act of 1997, which effectively understated the amount paid through the inpatient prospective system for a number of years. Under the settlement agreement, the Network received \$6,100 during the year ended December 31, 2012, net of professional fees and is included in the settlements and other changes in estimate above.

Charity Care

The Network provides medically necessary services without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. In assessing a patient's ability to pay, the Network not only utilizes generally recognized poverty income levels of the communities it serves, but also includes certain cases where incurred charges are significant when compared to the patient's financial resources. Charity care amounts are not included in net patient service revenue.

The estimated direct and indirect costs of charity care, quantified as the cost of free or discounted health services provided to persons who cannot afford to pay, was \$30,679 and \$33,180 for the years ended December 31, 2012 and 2011, respectively. Charity care costs are estimated based on multiplying the ratio of costs to gross charges for all payments not attributable to other community benefits programs by the revenue recognized and written off for health services provided to persons who cannot afford to pay. The Ohio Hospital Care Assurance Program (HCAP) provides some reimbursement to the Network for services provided to qualified persons who cannot afford to pay. The amount of HCAP reimbursements was \$14,747 and \$12,262 for the years ended December 31, 2012 and 2011, respectively, and is included in net patient service revenue.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Significant Accounting Policies (continued)

Other Revenue

Other revenue includes Kettering College tuition revenue, certain investment income (loss), retail pharmacy revenue, cafeteria and other food service revenue, rental income, electronic health records incentive reimbursement, and other miscellaneous revenue

The American Recovery and Reimbursement Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record technology. Payments under the program are calculated based upon estimated discharges, charity care and other input data and are predicated upon the Network's attainment of program and attestation criteria and are subject to regulatory audit. The Network has opted to follow a gain contingency method, under ASC 450, *Contingencies*, which provides for recognition once attainment of program and attestation criteria has been achieved and amounts can be reasonably estimated. As a result, management estimated and recognized revenue of \$11,629 and \$2,169 within net patient service revenue for the years ended December 31, 2012 and 2011, respectively. Amounts recognized are subject to change, with such changes impacting operations in the period in which they occur.

Other, Primarily Investment Income (Loss)

Other, primarily investment income (loss) is made up of the following components for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Investment income (loss)	\$ 36,732	\$ (644)
Interest expense	(360)	(2,164)
Other	(4,041)	(1,331)
	<u>\$ 32,331</u>	<u>\$ (4,139)</u>

The components of other, primarily investment income (loss) are more fully described in the following notes:

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Significant Accounting Policies (continued)

Excess of Unrestricted Revenue Over Expenses (Expenses over Unrestricted Revenue)

The consolidated statements of operations and changes in net assets include the excess of unrestricted revenue over expenses (expenses over unrestricted revenue), which represents the operating indicator for the Network. Consistent with industry practice, changes in net assets which are excluded from the excess of unrestricted revenue over expenses (expenses over unrestricted revenue) include investment income on donor-restricted funds, restricted contributions, transfer of net assets under applicable business combination, and certain pension adjustments.

Federal Income Tax

Primarily all Network entities are recognized as exempt from federal income tax under Section 501(a) of the Internal Revenue Code as a charitable organization qualifying under Internal Revenue Code Section 501(c)(3) with the exception of KettCor, which is a for-profit corporation. The provision for income taxes for KettCor is not significant to the Network.

The Network completed an analysis of its tax positions in accordance with applicable accounting guidance and determined that no amounts were required to be recognized in the consolidated financial statements at December 31, 2012 or 2011.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) 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 consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain reclassifications were made to the 2011 consolidated financial statement presentation to conform to the 2012 presentation.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Significant Accounting Policies (continued)

New Accounting Pronouncements

The FASB has issued ASU No 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosures Requirements in U.S. GAAP and IFRS* (ASU 2011-04). The amendments in ASU 2011-04 change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The Network has adopted the provisions of ASU 2011-04 and made all required disclosures in the consolidated financial statements.

2. Concentration of Credit Risk

The Network's primary purpose is to provide health care services. The Network grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The following schedule summarizes the mix of patient accounts receivables at December 31.

	2012	2011
Medicare	39%	37%
Major commercial/managed care	23	24
Other	19	19
Medicaid	12	12
Self-pay	7	8
	100%	100%

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

3. Assets Whose Use Is Limited

The following schedule summarizes assets whose use is limited at December 31

	2012	2011
Cash and cash equivalents	\$ 28,806	\$ 21,655
Municipal debt securities	23,220	45,866
U S government debt securities	31,076	26,213
U S government agency debt securities	52,249	58,948
Corporate debt securities	54,441	49,338
Corporate equity securities	193,806	174,377
Mutual funds	60,374	55,744
Other	1,976	2,260
	445,948	434,401
Less current portion of assets whose use is limited	11,097	10,727
	\$ 434,851	\$ 423,674

The Network maintains diversification in its assets whose use is limited by allocating the assets to various asset classes and market segments and retains multiple professional investment firms with differing investment approaches. Accordingly, based on this diversification, management does not believe there are any material concentrations of credit at December 31, 2012 or 2011.

Interest and dividend earnings, net realized gains on investments and the net change in unrealized gains (losses) on investments are considered investment income. The following schedule summarizes investment income, excluding investment income restricted by donors, for the years ended December 31.

	2012	2011
Interest and dividend earnings	\$ 11,931	\$ 12,420
Net realized gains on investments	21,077	12,198
Net change in unrealized gains (losses) on investments	6,275	(23,024)
	\$ 39,283	\$ 1,594

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

3. Assets Whose Use Is Limited (continued)

Investment income is recorded in different consolidated financial statement lines on the consolidated statements of operations and changes in net assets based on the nature of the activities that the investment income supports or impacts. The following are the details of where investment income is recorded for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Other revenue, net	\$ 2,551	\$ 2,238
Other, primarily investment income (loss)	<u>36,732</u>	<u>(644)</u>
	<u>\$ 39,283</u>	<u>\$ 1,594</u>

Investment management expenses, which are paid to professional investment managers and custodial organizations, were \$2,242 and \$2,082 for the years ended December 31, 2012 and 2011, respectively, and are primarily recorded as a reduction in other, primarily investment income (loss).

Assets whose use is limited (trustee-held assets) include the unexpended proceeds of tax-exempt bond obligations of \$25,922 at December 31, 2011, which were primarily invested in cash equivalents. There were no unexpended proceeds of the tax-exempt bond obligations at December 31, 2012.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

4. Property and Equipment, Net

The following schedule summarizes property and equipment, net at December 31

	<u>2012</u>	<u>2011</u>
Land improvements	\$ 45,045	\$ 38,793
Buildings and fixed equipment	843,723	715,552
Movable equipment	532,376	457,803
	<u>1,421,144</u>	<u>1,212,148</u>
Less accumulated depreciation	(716,332)	(639,029)
	<u>704,812</u>	<u>573,119</u>
Construction in progress	43,832	153,948
Land	76,231	73,643
	<u>\$ 824,875</u>	<u>\$ 800,710</u>

Capitalized computer software development costs of \$82 and \$14,632 at December 31, 2012 and 2011, respectively, are included in construction in process related to a clinical information technology system implementation. Unamortized computer software development costs, in addition to the amounts included in construction in process, are \$83,675 and \$73,575 at December 31, 2012 and 2011, respectively, and are included in movable equipment. The amount amortized for the years ended December 31, 2012 and 2011 related to computer software development costs is \$10,269 and \$4,467, respectively, and is included in depreciation expense.

The Network periodically evaluates property and equipment to determine whether assets may have been impaired. Management has determined there were no impairment issues related to property and equipment as of December 31, 2012 or 2011.

Kettering Health Network

Notes to Consolidated Financial Statements (continued)

(In Thousands)

4. Property and Equipment, Net (continued)

The Network has entered into certain transactions with developers to construct medical office buildings or other structures on land which is owned by the Network. The Network is currently, or will in the future, lease portions of these buildings from the developers. Under applicable accounting guidance, the Network has determined that it maintains risk related to certain of these transactions and as a result has recorded the medical office buildings or other structures in property and equipment net, and a related liability, which is included in other long-term liabilities, of \$42,703 and \$43,317 at December 31, 2012 and 2011, respectively, related to these transactions.

The depreciation expense of \$1,523 for both of the years ended December 31, 2012 and 2011 recorded on these medical office buildings or other structures is excluded from depreciation expense on the statements of operations and changes in net assets and is included in other, primarily investment income (loss). Under the applicable accounting guidance, the rents related to these medical office buildings and other structures are recorded as a reduction in the recorded liability or as an increase to interest expense.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

5. Long-Term Debt

The following is a summary of the Network's long-term debt at December 31

	2012	2011
Hospital Facilities Revenue Bonds, Series 1996, with fixed rates ranging from 5.50% to 6.25%, due in installments from 2009 through 2026, net of unamortized bond discount of \$872 (\$969 in 2011)	\$ 53,780	\$ 56,338
Hospital Facilities Revenue Bonds, Series 1999, with fixed rates ranging from 5.75% to 6.75%, due in installments from 2006 through 2012, net of unamortized bond discount of \$2 in 2011	—	5,702
Hospital Facilities Revenue Bonds, Greene County, Series 1999, with a variable rate of 0.17% (0.18% at December 31, 2011), due in installments from 1999 through 2024	11,155	11,755
Hospital Facilities Revenue Bonds, Series 2008B, with a variable rate of 2.50% at December 31, 2011 originally due in installments from 2023 through 2047	—	94,240
Hospital Facilities Revenue Bonds, Series 2009, with fixed rates ranging from 5.00% to 5.50%, due in installments from 2023 through 2039, net of unamortized bond discount of \$1,781 (\$1,872 in 2011)	98,219	98,128
Hospital Facilities Revenue Bonds, Series 2011, with fixed rates ranging from 4.50% to 6.38%, due in installments from 2023 through 2041, net of unamortized bond discount of \$4,443 (\$4,648 in 2011)	150,987	150,782
Hospital Facilities Revenue Bonds, Series 2011A, with a variable rate of 1.27% (1.32% at December 31, 2011), due in installments from 2012 through 2022	83,450	84,400
Hospital Facilities Revenue Bonds, Series 2011B, with a variable rate of 1.16% (1.20% at December 31, 2011), due in installments from 2027 through 2047	93,575	93,575
Hospital Facilities Revenue Bonds, Series 2012 with a fixed rates ranging from 4.75% to 5.25%, due in installments from 2023 through 2047, net of unamortized bond premium of \$1,346	94,686	—
Total Hospital Facilities Revenue Bonds	585,852	594,920
Other notes payable	3,322	7,431
Capital lease obligations	13,458	13,987
	602,632	616,338
Less current portion of long-term debt	(12,076)	(13,878)
	\$ 590,556	\$ 602,460

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

5. Long-Term Debt (continued)

The following schedule of aggregate future minimum payments for principal repayment (net of discount or premium amortization) for all long-term debt based on scheduled maturities

2013	\$ 11,939
2014	12,361
2015	12,339
2016	11,487
2017	12,921
Thereafter through 2047	541,585
	<u>\$ 602,632</u>

At December 31, 2012 and 2011, the fair value of the fixed rate long-term debt is \$430,157 and \$310,951, respectively (carrying amount at December 31, 2012 and 2011 is \$407,480 and \$314,732, respectively) The fixed rate long-term has been valued based on trading history, if any, for the fixed rate long-term debt or the relationship of those fixed rate long-term debt yields with various market indices The index used in the analysis is from an observable market source The Network's long-term debt currently carries an A rating and as a result, management, through a third-party provider, used market data that represents A-rated tax-exempt municipal healthcare bonds to determine the yield and calculate fair value The yields used at December 31, 2012 and 2011 ranged from 1.44% to 4.68% based on the date of respective long-term debt principal payments Management has determined the carrying amount of the Network's variable rate long-term debt is representative of fair value as the interest rates associated with long-term debt are set by market participants The determination of the fair value of long-term debt is consistent with a Level 2 measurement in the fair value hierarchy

Interest payments made were \$30,631 and \$25,658 for the years ended December 31, 2012 and 2011, respectively Interest capitalized was \$1,295 and \$3,657 for the years ended December 31, 2012 and 2011, respectively

The Network's Series 2009 Hospital Facilities Revenue Bonds fixed rate bonds (Series 2009 Bonds) had been to finance the building of the Soin Medical Center and to pay the related costs of issuance Interest expense net of capitalized interest of \$360 for December 31, 2012 (\$2,162 for 2011) of these Series 2009 Bonds is excluded from interest expense and is included in other, primarily investment income (loss) This presentation on the consolidated statements of operations and changes in net assets occurred until the Soin Medical Center was placed into service in February 2012

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

5. Long-Term Debt (continued)

The Series 1999 Hospital Facilities Revenue Bonds, Greene County (Series 1999 Greene County Bonds) are secured by a letter of credit by JP Morgan Chase which expires on July 22, 2017. Accordingly, the Series 1999 Greene County Bonds have been classified as long-term debt based on scheduled amortization.

Outstanding long-term debt insured under municipal bond insurance policies is \$53,780 at December 31, 2012 (\$150,578 at December 31, 2011). Under the terms of these policies, the insurer guarantees the Network's payment of principal and interest. The Obligated Group is liable for all long-term debt issued under an Obligated Group Master Trust Indenture, except for the Series 1999 Greene County Bonds, and has pledged gross unrestricted revenue as security to the bondholders. The Series 1999 Greene County Bonds are an obligation of Greene under a separate Greene Master Trust Indenture. The Obligated Group has entered into a guaranty agreement with the letter of credit bank to guarantee the payment of principal and interest of the Series 1999 Greene County Bonds. The Obligated Group is subject to certain covenants under its current long-term debt agreements, Master Trust Indenture, guarantee agreement, municipal bond insurance policies and the standby bond purchase agreements. Greene, on a stand-alone basis, is subject to certain covenants under its separate Greene Master Trust Indenture. Management is not aware of any violations of these covenants at December 31, 2012 or 2011.

In April 2012, the Network advance refunded the Series 2008B Hospital Facilities Revenue bonds with proceeds from the Series 2012 Hospital Facilities Revenue Bonds (Series 2012 Bonds). The Series 2012 bonds have a fixed rate with a final maturity of 2047. As a result of the advance refunding, the Network recorded a \$2,392 loss on early extinguishment of debt for the year ended December 31, 2012.

In June 2011, the Network issued its Series 2011 Hospital Facilities Revenue fixed rate bonds (Series 2011 Bonds) in the amount of \$155,430. The borrowings are being used to fund future Network capital projects, reimburse the Network for past capital improvements, and pay the related costs of issuance. The Series 2011 Bonds have a final maturity of 2047 and are insured under municipal bond insurance policies.

In November 2011, the Network advance refunded the Series 2006A and 2008A Hospital Facilities Revenue Bonds with proceeds from the Series 2011A and 2011B Hospital Facilities Revenue Bonds (Series 2011A and 2011B Bonds).

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

5. Long-Term Debt (continued)

Both the Series 2011A and 2011B Bonds are subject to mandatory and optional redemption clauses and were sold through a private placement with JP Morgan Chase Bank effective December 1, 2011. The Series 2011A Bonds have a final maturity in 2022 and the Series 2011B Bonds have a final maturity in 2047. As a result of the advanced refunding, the Network recorded a \$3,472 loss on early extinguishment of debt for the year ended December 31, 2011.

KettCor is a 25% partner in the Greater Dayton Surgery Center, LLC and the Dayton Surgical Properties, LLC. KettCor guaranteed 25% of both entities' outstanding long-term debt. Greater Dayton Surgical Center, LLC's and Dayton Surgical Properties, LLC's outstanding long-term debt was \$1,410 and \$1,364, respectively, at December 31, 2012 (\$1,512 and \$1,465, respectively, at December 31, 2011). KettCor is a 30% partner of Englewood Wenger Road Medical Properties, LLC. KettCor guaranteed 30% of Englewood Wenger Road Medical Properties, LLC's outstanding long-term debt which is being used to fund the construction of a medical office building. Englewood Wenger Road Medical Properties, LLC's outstanding long-term debt was \$1,170 at December 31, 2012 (\$1,212 at December 31, 2011). In 2009, KettCor became a 50% partner of Medical Center at Elizabeth Place (MCEP). KettCor guaranteed 50% of MCEP's outstanding debt for lease improvements and equipment. MCEP's outstanding long-term debt was \$2,877 at December 31, 2012 (\$4,625 at December 31, 2011). The guarantee agreements are recorded as liabilities based on probability of payment and amount in the consolidated financial statements as required by ASC 460, *Guarantees*.

6. Interest Rate Swap Agreements

The Network has entered into derivative transactions in the form of interest rate swap agreements which it uses to manage the relative amounts of its fixed and variable rate long-term debt exposure and lower its overall borrowing costs. The interest rate swap agreements are contracts between the Network and a third-party (counterparty) that provide for economic payments between parties based on changes in notional amounts and defined interest rates. The risk of interest swap agreements is estimated and managed on an ongoing basis by the Network. The interest rate swap agreements provide counterparty credit risk. This is the risk that contractual obligations of the counterparty will not be fulfilled. Certain collateralization requirements mitigate credit risk associated with the Network's interest rate swap agreements.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

6. Interest Rate Swap Agreements (continued)

The following schedule includes the notional and valuation amounts (parenthetical amounts represent liabilities) of the Network's interest rate swap agreements at December 31

Interest Rate Swap Agreement	Transaction Type	Interest Rate	Termination Date	Notional Amount		Valuation Amount	
				2012	2011	2012	2011
June 2005	Pay fixed	LIBOR	2024	\$ 10,017	\$ 10,557	\$ (1,389)	\$ (1,386)
October 2005	Pay fixed	3.99%	2022	83,450	84,400	(12,098)	(11,930)
March 2006	Pay variable	SIFMA	2014	12,612	12,490	(137)	(169)
March 2006	Pay variable	SIFMA	2022	32,137	31,507	(104)	(441)
March 2006	Pay fixed	LIBOR	2026	46,940	49,595	(11,249)	(11,493)
October 2007	Pay fixed	LIBOR	2047	94,240	94,240	(28,451)	(29,742)
December 2008	Pay variable	SIFMA	2022	83,450	84,400	459	182
May 2012	Pay variable	SIFMA	2017	20,408	—	479	—
May 2012	Pay variable	SIFMA	2017	20,899	—	559	—
May 2012	Pay variable	SIFMA	2017	24,211	—	512	—
May 2012	Pay variable	SIFMA	2017	29,202	—	701	—
						<u>\$ (50,718)</u>	<u>\$ (54,979)</u>

All changes in the fair value of the Network's interest rate swap agreements are recognized in other income (loss) in the consolidated statements of operations. The following is the detail of income (loss) on interest rate swap agreements for the years ended December 31

	2012	2011
Unrealized gains (losses), net	\$ 2,681	\$ (23,389)
Hedge de-designation impact	(218)	(386)
Settlements/realized losses, net	(106)	(67)
	<u>\$ 2,357</u>	<u>\$ (23,842)</u>

Net payments to/from counterparty of \$3,999 and \$6,577 (expense) for the years ended December 31, 2012 and 2011, respectively, are excluded from loss on interest rate swap agreements and included as an increase in interest expense.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

6. Interest Rate Swap Agreements (continued)

The Network entered into four new total return interest rate swap agreements in 2012, all with maturity dates in May 2017, for a total notional amount of \$94,720. The Network has not designated any of the new agreements as cash flow hedges as defined under ASC 815, *Derivatives and Hedging*.

All of the Network's interest rate swap agreements, except the October 2005 and October 2007 interest rate swap agreements, which are insured, include provisions that require collateralization of the market value of the interest rate swap agreements that exceed certain thresholds. No collateral was required as of December 31, 2012 or 2011.

7. Line of Credit

KAH has a line of credit with a limit of \$25,000 at both December 31, 2012 and 2011 which expires on August 31, 2013 to provide working capital for various operations. Interest is payable monthly at LIBOR plus 75% at December 31, 2012 (75% at December 31, 2011) on any outstanding balance. There was no outstanding balance at December 31, 2012 or 2011.

8. Retirement Plans

Kettering Medical Center Retirement Plan

On January 1, 1992, KAH initiated a defined contribution plan known as Kettering Medical Center Retirement Plan (the Kettering Plan). On January 1, 2001, the Kettering Plan, a church plan, was expanded to include the Grandview Affiliates (now referred to as the Network Plan). The Network provides a discretionary matching employer contribution for eligible employee contributions up to 25% of the first 4% of an employee's total pay. Employees must have completed 1,000 worked hours in an eligible year to qualify for the Network's contributions. In 2012, the Network recognized \$14,963 (\$12,824 in 2011) of expense related to the Network Plan.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Retirement Plans (continued)

Kettering Defined Benefit Retirement and Health Care Benefit Plans

The Kettering Affiliates participated in noncontributory, defined benefit retirement and health care benefit plans (the Plans) through December 31, 1991. The Plans are multi-employer plans administered by the General Conference of Seventh-day Adventists and cover substantially all full-time employees who were at least 20 years of age at December 31, 1991. The Plans are exempt from compliance with the Employee Retirement Income Security Act of 1974 (ERISA). The Plans were frozen effective December 31, 1991.

Contributions to the Plans are determined by the Plans' administrators and generally approximate funding levels recommended by consulting actuaries. Although there is no liability to the Kettering Affiliates upon withdrawal from the Plans, withdrawal by other participating entities would likely increase amounts assessed to the Kettering Affiliates and other remaining participants in future years. Management believes that any withdrawal liability will not have a material impact on the consolidated financial statements.

Contributions are allocated to participating organizations based upon total employee hours paid in 1991. There were no contributions in 2012 or 2011.

The Network sponsors certain retirement plans, as defined in the following paragraphs, for the benefit of select employees. These retirement plans require the Network to record long-term assets and/or long-term liabilities for the future benefit of these employees. Amounts recorded in the consolidated balance sheets related to these retirement plans are as follows at December 31:

Retirement Plan	Retirement Plan Assets		Accrued Retirement Plan Liability	
	2012	2011	2012	2011
Supplemental Retirement Allowance Plan	\$ 295	\$ 335	\$ 295	\$ 335
457(b) Eligible Deferred Compensation Plans	9,795	8,956	9,795	8,956
Grandview Defined Benefit Pension Plan	—	—	22,160	17,462
	<u>\$ 10,090</u>	<u>\$ 9,291</u>	<u>\$ 32,250</u>	<u>\$ 26,753</u>

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Retirement Plans (continued)

Supplemental Retirement Allowance Plan Summary

The Supplemental Retirement Allowance Plan (the SRA Plan) is a nonqualified deferred compensation plan maintained for certain employees of the Network and its affiliates. Covered employees are those (i) who were employed on January 1, 2004, (ii) who had become vested under the Seventh-day Adventist Retirement Plan of the North American Division (the SDA Retirement Plan) on or prior to December 31, 1991, (iii) who were not eligible to receive a “retirement allowance” under the SDA Retirement Plan, and (iv) who maintained continuous employment with the Kettering Affiliates from December 31, 1991 through age 65.

The benefit under the Plan is based on a special benefit that was provided to certain eligible long-term employees under the SDA Retirement Plan when such plan was frozen on December 31, 1991. Generally, the SRA Plan provides eligible employees with five and one-half months of base pay (at the employee’s wage level as of December 31, 1991) following attainment of age 65, prorated downward if the employee had less than 40 years of service prior to the attainment of age 65 under the SDA Retirement Plan.

The SRA Plan provides that benefits are paid in a single lump-sum payment on or as soon as practicable following a participant’s attainment of age 65. The SRA Plan also provides benefits to certain employees who were granted disability retirement benefits under the SDA Retirement Plan or benefits from the Employee Disability Income Plan, if, after discontinuing disability benefits, the employee returns to denominational employment and earns at least ten years of service credit.

457(b) Eligible Deferred Compensation Plans

The purpose of the 457(b) Eligible Deferred Compensation Plans (the 457(b) Plan) is to enable eligible employees, as defined by the 457(b) Plan documents, to enhance their retirement security by permitting them to enter into agreements with the Network to defer a portion of their compensation and receive benefits generally at retirement, death or in the event of financial hardship due to unforeseeable emergencies. The 457(b) Plans meet the requirements of Section 457(b) of the Internal Revenue Code, as amended. In addition, the Kettering 457(b) Plan meets the definition of “church plan” and as a result, is exempt from ERISA and from certain requirements of the Internal Revenue Code.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) *(In Thousands)*

8. Retirement Plans (continued)

Grandview Defined Benefit Pension Plan

The Grandview Affiliates have a defined benefit pension plan (the Grandview Plan) covering substantially all of its employees on record as of December 31, 2000. The benefits are based on years of service and the employee's compensation during employment, subject to maximum limitations. Grandview Affiliates' funding policy is to contribute amounts to the Grandview Plan at least equal to the minimum ERISA funding requirements. Effective January 1, 2001, the Grandview Plan was frozen. The Board of Trustees adopted an amendment to cease all benefit accruals under the Grandview Plan and discontinue adding participants to the Grandview Plan. At the time of adoption, all Grandview Affiliates' employees were made eligible to participate in the Network Plan.

The Network recognizes in its consolidated balance sheets the underfunded status of its defined benefit pension, measured as the difference between the fair value of plan assets and the benefit obligation. The Network recognizes the change in the funded status of the plan in the year in which the change occurs through unrestricted net assets.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Retirement Plans (continued)

A summary of the components of the change in benefit obligation and plan assets for the Grandview Plan and the amounts recognized in the Network's consolidated financial statements as of December 31 is as follows

	<u>2012</u>	<u>2011</u>
Change in benefit obligation		
Benefit obligation at beginning of period	\$ 52,634	\$ 47,827
Service cost	121	119
Interest cost	2,371	2,534
Actuarial loss	9,042	4,229
Benefits paid	(2,121)	(1,953)
Expenses paid	—	(122)
Benefit obligation at end of period	<u>62,047</u>	<u>52,634</u>
Change in plan assets		
Fair value of plan assets at beginning of period	35,172	35,797
Actual return (loss) on plan assets	3,639	(146)
Employer contributions	3,197	1,596
Benefits paid	(2,121)	(1,953)
Expenses paid	—	(122)
Fair value of plan assets at end of period	<u>39,887</u>	<u>35,172</u>
Underfunded status	<u>\$ (22,160)</u>	<u>\$ (17,462)</u>

The accumulated benefit obligation of the Grandview Plan was \$62,047 and \$52,634 at December 31, 2012 and 2011, respectively

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic pension expense for the Grandview Plan as of December 31

	<u>2012</u>	<u>2011</u>
Net actuarial loss	\$ 28,598	\$ 22,958
Accumulated shortfall of employer contributions over net periodic pension expense	<u>(6,438)</u>	<u>(5,496)</u>
	<u>\$ 22,160</u>	<u>\$ 17,462</u>

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Retirement Plans (continued)

The net actuarial loss is amortized as a component of net period pension expense, only if losses exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets. The net actuarial loss included in unrestricted net assets which is expected to be recognized in net periodic pension expense during the year ending December 31, 2013 is \$2,615.

The following amounts related to Grandview Plan activity have been recognized as a decrease in unrestricted net assets for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Net actuarial loss	\$ 8,064	\$ 7,200
Amortization of net actuarial loss	(2,424)	(1,651)
	<u>\$ 5,640</u>	<u>\$ 5,549</u>

The following table summarizes the components of net periodic pension expense, which is included in employee benefits on the consolidated statements of operations and changes in net assets, for the Grandview Plan for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Service cost	\$ 121	\$ 119
Interest cost	2,369	2,534
Expected loss on plan assets	(2,660)	(2,824)
Amortization of net actuarial loss	2,424	1,650
	<u>\$ 2,254</u>	<u>\$ 1,479</u>

The following table summarizes the weighted-average assumptions used to determine the projected benefit obligation for the Grandview Plan as of December 31:

	<u>2012</u>	<u>2011</u>
Discount rate	3.81%	4.60%
Expected return on plan assets	8.00%	8.00%

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Retirement Plans (continued)

The following table summarizes the weighted-average assumptions used to determine net periodic pension expense for the years ended December 31

	<u>2012</u>	<u>2011</u>
Discount rate	4.60%	5.42%
Expected return on plan assets	8.00%	8.00%

In selecting the expected long-term return on plan assets, the Network considered the average rate of earnings on the funds invested or to be invested to provide for the benefit obligation of the Grandview Plan. This included considering the Grandview Plan's asset allocation and the expected returns likely to be earned over the life of the Grandview Plan. This basis is consistent with the prior year.

The following is a summary of the fair value of the Grandview Plan's plan assets by category at December 31

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 1,354	\$ 1,498
U.S. government debt securities	3,129	1,355
U.S. government agency debt securities	5,747	6,680
Municipal debt securities	1,994	2,198
Corporate debt securities	4,862	5,641
Corporate equity securities	22,801	17,800
	<u>\$ 39,887</u>	<u>\$ 35,172</u>

The Grandview Plan's plan assets are invested in a portfolio that provides for asset allocation strategies across equity and debt markets in the United States. The portfolio's objective is to maximize total return, consisting of current income and capital appreciation, without assuming undue risk. Strategies are followed which increase or decrease investments in the equity and debt markets based upon ongoing analysis. The active management process combines judgments about the value of the equity and debt markets and the relative value of a wide variety of securities within these markets. Consideration is given to several variables, including

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Retirement Plans (continued)

productivity, inflation, global competitiveness, and risk. The Network's objective is to have 50% invested in corporate equity securities, 45% invested in U S government, U S government agency, municipal and corporate debt securities, and 5% invested in cash and cash equivalents.

The Network maintains diversification in its plan assets by allocating assets to various asset classes and market segments. Accordingly, based on this diversification, management does not believe there are any concentrations of credit at December 31, 2012 or 2011.

The following is a summary of the Grandview Plan's plan assets measured at fair value on a recurring basis based on the fair value hierarchy at

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,354	\$ —	\$ —	\$ 1,354
U S government debt securities	2,257	872	—	3,129
U S government agency debt securities	—	5,747	—	5,747
Municipal debt securities	—	1,994	—	1,994
Corporate debt securities				
Consumer	—	998	—	998
Financial	—	3,022	—	3,022
Other	—	842	—	842
Total corporate debt securities	—	4,862	—	4,862
Corporate equity securities				
Basic materials	1,521	—	—	1,521
Communications	2,928	—	—	2,928
Consumer	6,095	—	—	6,095
Energy	2,777	—	—	2,777
Financial	3,428	—	—	3,428
Industrial	3,595	—	—	3,595
Technology	2,351	—	—	2,351
Other	106	—	—	106
Total corporate equity securities	22,801	—	—	22,801
	\$ 26,412	\$ 13,475	\$ —	\$ 39,887

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Retirement Plans (continued)

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,498	\$ —	\$ —	\$ 1,498
U S government debt securities	—	1,355	—	1,355
U S government agency debt securities	—	2,198	—	2,198
Municipal debt securities	—	6,680	—	6,680
Corporate debt securities				
Consumer	—	773	—	773
Financial	—	1,529	—	1,529
Other	—	3,339	—	3,339
Total corporate debt securities	—	5,641	—	5,641
Corporate equity securities				
Basic materials	1,457	—	—	1,457
Communications	2,102	—	—	2,102
Consumer	5,077	—	—	5,077
Energy	1,423	—	—	1,423
Financial	2,814	—	—	2,814
Industrial	2,352	—	—	2,352
Technology	1,897	—	—	1,897
Other	678	—	—	678
Total corporate equity securities	17,800	—	—	17,800
	\$ 19,298	\$ 15,874	\$ —	\$ 35,172

The fair value methodologies for cash and cash equivalents and the other asset classes included in Level 1 and Level 2 of the fair value hierarchy above are consistent with the inputs described in Note 11

Because of the change in funding requirements resulting from the Pension Protection Act (PPA), the Network cannot say with certainty whether there will be any required contribution for 2013, or whether there will be any required quarterly contributions. The Network does not anticipate that any funding will be required. The Network may choose to continue contributions, though, to achieve its goal of fully funding the Grandview Plan.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Retirement Plans (continued)

The projected benefit payments for the Grandview Plan are as follows

2013	\$	2,319
2014		2,397
2015		2,488
2016		2,622
2017		2,753
2018–2022		15,981

9. Commitments and Contingencies

Litigation

The Network is involved in litigation arising in the ordinary course of business. It is not possible to determine the eventual outcome of any presently unresolved litigation. However, in the opinion of management, after consultation with legal counsel, these matters will be resolved without material adverse effect to the Network's consolidated financial position or results of operations.

General and Professional Liability

The Network is self-insured for professional and general liability losses through an irrevocable trust. Losses from asserted claims and unasserted claims identified under the Network's incident reporting system are accrued based on estimates that incorporate the Network's past experience as well as other considerations, including the nature of each claim or incident. An accrual has been made for possible losses attributable to incidents that may have occurred but that have not been identified under the incident reporting system. An actuary has been engaged to determine the appropriate liability to be recorded. The liability for all identified and unidentified claims was estimated as the present value of the future claim payments using a discount rate of 2.75% in both 2012 and 2011. In the opinion of management, the reserve for professional and general liability losses is adequate to provide for any liabilities arising from these claims within the self-insurance retention levels.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

9. Commitments and Contingencies (continued)

Operating Leases

The Network leases certain buildings and equipment from third parties, including those discussed in Note 4, in the form of noncancelable operating leases. Rental expense for certain buildings and equipment was \$17,823 and \$16,255 for the years ended December 31, 2012 and 2011, respectively. The following is a schedule of aggregate future minimum payments under noncancelable operating leases as of December 31, 2012:

2013	\$ 14,613
2014	9,664
2015	8,217
2016	4,829
2017	3,616
Thereafter	15,622
	<u>\$ 56,561</u>

10. Functional Expenses

The Network provides health care, general and administrative, and educational services to residents within its geographical location. Expenses related to providing these services are as follows for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Education	\$ 15,131	\$ 13,667
Health care services	1,020,953	974,593
General and administrative	178,370	130,724
	<u>\$ 1,214,454</u>	<u>\$ 1,118,984</u>

11. Fair Value Measurements

The carrying amount reported in the consolidated balance sheets for current assets and current liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments. These financial instruments are not required to be recorded at fair value on a recurring basis and therefore are not disclosed in the accompanying table under ASC 820.

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

11. Fair Value Measurements (continued)

Recurring Fair Value Measurements

The following tables represent the financial instruments measured at fair value, by asset class on the consolidated balance sheets, under the fair value hierarchy at

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 123,966	\$ —	\$ —	\$ 123,966
Assets whose use is limited				
Cash and cash equivalents	28,806	—	—	28,806
Municipal debt securities	—	23,220	—	23,220
U S government debt securities	22,595	8,481	—	31,076
U S government agency debt securities	—	52,249	—	52,249
Corporate debt securities				
Asset-backed securities	—	5,800	—	5,800
Communications	—	5,561	—	5,561
Consumer	—	8,372	—	8,372
Energy	—	3,121	—	3,121
Financial	—	20,934	—	20,934
Other	—	10,653	—	10,653
Total corporate debt securities	—	54,441	—	54,441
Corporate equity securities				
Basic materials	13,499	—	—	13,499
Communications	20,459	—	—	20,459
Consumer	58,938	—	—	58,938
Energy	21,252	—	—	21,252
Financial	32,291	—	—	32,291
Industrial	26,228	—	—	26,228
Technology	19,765	—	—	19,765
Other	1,374	—	—	1,374
Total corporate equity securities	193,806	—	—	193,806
Mutual funds				
Equity	11,328	—	—	11,328
Debt	46,141	—	—	46,141
Other	2,905	—	—	2,905
Total mutual funds	60,374	—	—	60,374
Other	—	1,976	—	1,976
Total assets whose use is limited	429,547	140,367	—	569,914
Retirement plan assets	10,090	—	—	10,090
Total assets at fair value	\$ 439,637	\$ 140,367	\$ —	\$ 580,004
Liabilities				
Interest rate swap agreements liability	\$ —	\$ —	\$ 50,718	\$ 50,718
Total liabilities at fair value	\$ —	\$ —	\$ 50,718	\$ 50,718

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

11. Fair Value Measurements (continued)

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 82.484	\$ –	\$ –	\$ 82.484
Assets whose use is limited				
Cash and cash equivalents	21.655	–	–	21.655
Municipal debt securities	–	45.866	–	45.866
U S government debt securities	24.749	1.464	–	26.213
U S government agency debt securities	–	58.948	–	58.948
Corporate debt securities				
Asset-backed securities	–	6.649	–	6.649
Communications	–	1.665	–	1.665
Consumer	–	5.158	–	5.158
Energy	–	1.121	–	1.121
Financial	–	16.953	–	16.953
Other	–	17.792	–	17.792
Total corporate debt securities	–	49.338	–	49.338
Corporate equity securities				
Basic materials	25.354	–	–	25.354
Communications	6.035	–	–	6.035
Consumer	48.225	–	–	48.225
Energy	2.692	–	–	2.692
Financial	28.253	–	–	28.253
Industrial	11.042	–	–	11.042
Technology	29.434	–	–	29.434
Other	23.342	–	–	23.342
Total corporate equity securities	174.377	–	–	174.377
Mutual funds				
Equity	11.016	19	–	11.035
Debt	30.803	3.995	–	34.798
Other	9.911	–	–	9.911
Total mutual funds	51.730	4.014	–	55.744
Other	2.260	–	–	2.260
Total assets whose use is limited	274.771	159.630	–	434.401
Retirement plan assets	9.291	–	–	9.291
Total assets at fair value	\$ 366.546	\$ 159.630	\$ –	\$ 526.176
Liabilities				
Interest rate swap agreements liability	\$ –	\$ –	\$ 54.979	\$ 54.979
Total liabilities at fair value	\$ –	\$ –	\$ 54.979	\$ 54.979

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

11. Fair Value Measurements (continued)

Cash and Cash Equivalents and Assets Whose Use Is Limited

The Network's cash and cash equivalents and assets whose use is limited are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations or alternative pricing sources, primarily matrix pricing, with reasonable levels of price transparency. Matrix pricing, primarily used for marketable debt securities, is based on quoting prices for securities with similar coupons, ratings and maturities, rather than on specific bids and offers for the specific security. The types of financial instruments based on quoted market prices in active markets include most U S government debt securities, corporate marketable equity securities, mutual funds, and money market securities (cash equivalents). Such instruments are generally classified within Level 1 of the fair value hierarchy. The Network does not adjust the quoted market price for such financial instruments.

The types of financial instruments valued based on quoted market prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include U S government agency debt securities, municipal debt securities, certain U S government debt securities, corporate debt securities, as well as certain thinly traded marketable equity securities. Such financial instruments are generally classified within Level 2 for the fair market value hierarchy. Primarily all of the Network's marketable debt securities, including corporate asset-backed obligations, are actively traded and the recorded fair value reflects current market conditions. However, due to the inherent volatility in the investment market there is at least a possibility that recorded investment values may change by a material amount in the near term.

Following is the summary of the inputs and techniques as of December 31, 2012 and 2011 used for valuing Level 2 securities in the portfolio:

Securities	Input	Technique
Municipal debt securities	Broker/Dealer	Market
U S government debt securities	Broker/Dealer	Market
U S government agency debt securities	Broker/Dealer	Market
Corporate equity securities	Broker/Dealer	Market/Income
Mutual funds	NAV	Market
Other	NAV	Market

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

11. Fair Value Measurements (continued)

Interest Rate Swap Agreements

The Network participates in interest rate swap agreements to manage its exposures to fluctuations in interest rates and overall long-term debt portfolio. The Network's interest rate swap agreements are not traded on an exchange. The valuation of interest rate swap agreements is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each interest rate swap agreement based on the respective fixed rates and the LIBOR (or SIFMA) yield curve adjusted for the spread between the LIBOR (or SIFMA) yield curve and the Federal funds rate for collateralized portions of the liability. The valuation of the Company's interest rate swap agreements is performed by the Network's counterparty and validated through the use of an independent third-party valuation, including the unobservable inputs used in the calculation. Management monitors the changes in the Network's interest rate swap agreements period to period and ensures all significant changes are disclosed in the consolidated financial statements.

The following is a summary of key inputs used to determine the fair value for each interest rate swap agreement at December 31:

Interest Rate Swap Agreement	Variable Rate Curve		Fixed Rate		Discount Rate	
	2012	2011	2012	2011	2012	2011
June 2005	LIBOR	LIBOR	3.29%	3.29%	Avg of LIBOR curve	Avg of LIBOR curve
October 2005	3.99%	3.99%	3.99%	3.99%	3.99%	3.99%
March 2006	SIFMA	SIFMA	5.28%	5.28%	Avg of SIFMA curve	Avg of SIFMA curve
March 2006	SIFMA	SIFMA	5.15%	5.15%	Avg of SIFMA curve	Avg of SIFMA curve
March 2006	LIBOR	LIBOR	4.48%	4.48%	Avg of LIBOR curve	Avg of LIBOR curve
October 2007	LIBOR	LIBOR	3.57%	3.57%	Avg of LIBOR curve	Avg of LIBOR curve
December 2008	SIFMA	SIFMA	N/A	N/A	Avg of SIFMA curve	Avg of SIFMA curve
May 2012	SIFMA	N/A	5.00%	N/A	Avg of SIFMA curve	N/A
May 2012	SIFMA	N/A	4.75%	N/A	Avg of SIFMA curve	N/A
May 2012	SIFMA	N/A	5.00%	N/A	Avg of SIFMA curve	N/A
May 2012	SIFMA	N/A	5.25%	N/A	Avg of SIFMA curve	N/A

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

11. Fair Value Measurements (continued)

The discounted cash flow analysis reflects the contractual terms of the interest rate swap agreements, including the period to maturity, and uses observed market-based inputs, including interest rate curves and implied volatilities. Valuation adjustments are required to be considered in the determination of fair value. This includes amounts to reflect counterparty credit quality and liquidity risk. Although the Network has determined that certain of the inputs used to value its interest rate swap agreements fall within Level 2 of the fair value hierarchy, certain inputs and the credit valuation adjustment associated with the interest rate swap agreements utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Network or the counterparty. As a result, the Network has determined that its interest rate swap agreements in their entirety are classified in Level 3 of the fair value hierarchy. Increases (decreases) in any of those inputs, specifically assumptions related to the LIBOR or SIFMA curves, in isolation would result in lower (higher) fair value measurement that could be material to the consolidated financial statements. However, based on historical experience, the inputs, including the LIBOR and SIFMA curves, typically change gradually over time.

The following table summarizes the activity related to interest rate swap agreements having fair value measurements based on significant unobservable inputs (Level 3).

	Interest Rate Swap Agreements
Fair value at December 31, 2010	\$ 31,598
Unrealized losses	23,478
Unrealized gains	(89)
Settlements	(8)
Fair value at December 31, 2011	<u>\$ 54,979</u>
Fair value at December 31, 2011	\$ 54,979
Unrealized losses	146
Unrealized gains	(2,827)
Settlements	(1,580)
Fair value at December 31, 2012	<u>\$ 50,718</u>

Kettering Health Network

Notes to Consolidated Financial Statements (continued) (In Thousands)

11. Fair Value Measurements (continued)

All realized and unrealized gains (losses) on interest rate swap agreements are included in the consolidated statements of operations and changes in net assets as other income (loss)

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

12. Community Benefit – Unaudited

The following represents community benefit expense at cost, net of revenue from all sources, for the years ended December 31

	<u>2012</u>	<u>2011</u>
Traditional charity care net of government subsidies	\$ 34,572	\$ 29,892
Unpaid costs of public programs	20,448	17,376
Unpaid costs of additional public programs	19,787	22,963
Other community health services, education, research and community building activities	7,110	7,924
Health professional education and research	14,382	16,592
Subsidized health services	22,984	21,183
Financial contributions	655	1,036
Total quantifiable benefits	<u>\$ 119,938</u>	<u>\$ 116,966</u>
Percent of total expenses	<u>11.08%</u>	<u>10.45%</u>

13. Subsequent Event

The Network has evaluated and disclosed any subsequent events through April 25, 2013, which is the date the consolidated financial statements were issued and made publicly available.

Supplementary Information

Report of Independent Auditors on Supplementary Information

The Board of Directors
Kettering Health Network

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet and consolidating statement of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

April 25, 2013

Kettering Health Network

Consolidating Balance Sheet – Assets (In Thousands)

December 31, 2012

	Kettering Medical Center	Kettering College	Grandview Medical Center	Som Medical Center	Total Obligated Group	Greene Memorial Hospital	Fort Hamilton Hospital	Kettering Adventist Healthcare	Affiliated Health Services, Inc	KettCor	Medical Center Foundation	Kettering Physician Network	Eliminations	Consolidated
Assets														
Current assets	\$ 114,278	\$ -	\$ 3,747	\$ -	\$ 118,025	\$ 3,509	\$ -	\$ -	\$ -	\$ 825	\$ -	\$ 1,607	\$ -	\$ 123,966
Cash and cash equivalents	9,769	-	-	1,328	11,097	-	-	-	-	-	-	-	-	11,097
Current portion of assets whose use is limited														
Patient accounts receivable, net of allowance	65,717	-	28,781	6,061	100,559	4,591	10,094	-	1,820	-	-	12,625	(2,534)	127,155
for doubtful receivables	9,746	1,405	8,430	64	19,645	581	4,119	250	-	377	174	3,494	-	28,640
Other receivables	9,233	-	4,992	1,446	15,671	1,381	1,245	-	-	390	-	429	-	19,116
Inventories	8,202	-	1,332	58	9,592	151	171	312	1	-	-	455	-	10,682
Prepaid expenses and other current assets	216,945	1,405	47,282	8,957	274,589	10,213	15,629	562	2,646	767	174	18,610	(2,534)	320,656
Total current assets														
Assets whose use is limited														
Board designated	343,641	-	21,102	(575)	364,168	1,796	25,275	-	537	-	-	-	-	392,313
Donor or agency restricted	64	250	-	575	889	2,606	2,774	-	-	-	12,634	-	-	18,903
Trustee-held assets	3,740	-	-	10,521	14,261	-	-	9,374	-	-	-	-	-	23,635
Total assets whose use is limited	347,445	250	21,102	10,521	379,318	4,402	28,049	9,374	537	-	13,171	-	-	434,851
Retirement plans assets	6,590	-	-	-	6,590	295	-	-	-	-	-	596	-	10,090
Unamortized long-term debt issuance costs	1,810	-	141	1,388	3,339	101	180	-	-	-	-	-	-	3,620
Property and equipment, net	377,109	1,167	174,259	147,345	699,880	28,268	49,813	20,646	22,347	230	-	3,691	-	824,875
Other long-term assets	14,122	-	6,038	-	20,160	826	1,544	927	467	5165	2,077	6,018	-	37,184
Total assets	\$ 964,021	\$ 2,822	\$ 248,822	\$ 168,211	\$ 1,383,876	\$ 44,105	\$ 95,215	\$ 34,118	\$ 25,997	\$ 6,162	\$ 15,422	\$ 28,915	\$ (2,534)	\$ 1,631,276

Kettering Health Network

Consolidating Balance Sheet – Liabilities and Net Assets (In Thousands)

December 31, 2012

	Kettering Medical Center	Kettering College	Grandview Medical Center	Som Medical Center	Total Obligated Group	Greene Memorial Hospital	Fort Hamilton Hospital	Kettering Adventist Healthcare	Affiliated Health Services, Inc	KettCor	Medical Center Foundation	Kettering Physicians Network	Eliminations	Consolidated
Liabilities and net assets														
Current liabilities														
Accounts payable	\$ 44,468	\$ -	\$ 9,095	\$ 2,077	\$ 55,640	\$ 2,756	\$ 3,081	\$ 77	\$ 384	\$ 49	\$ 1	\$ 3,516	\$ -	\$ 65,504
Payroll-related liabilities	27,713	196	8,088	1,538	37,535	2,016	3,621	7,258	-	-	-	4,883	-	55,313
Other accrued liabilities	16,375	782	8,130	2,913	28,200	1,024	2,573	7,944	920	-	-	3,298	(2,534)	41,425
Accrued interest	4,253	-	559	1,328	6,140	28	437	-	-	-	-	34	-	6,639
Current portion of deferred revenue	445	-	9	-	454	-	-	-	3,614	-	-	111	-	4,179
Estimated amounts due to third-party payors	6,518	-	(708)	(279)	5,531	311	14	-	61	-	-	-	-	5,917
Current portion of long-term debt	4,853	-	5,975	-	10,828	1,248	-	-	-	-	-	-	-	12,076
Total current liabilities	104,625	978	31,148	7,577	144,328	7,383	9,726	15,279	4,979	49	1	11,842	(2,534)	191,053
Deferred revenue	1,378	3	-	-	1,381	-	-	-	6,319	-	-	-	-	7,700
Accrued pension liability	6,590	-	22,160	-	28,750	295	-	2,609	-	-	-	596	-	32,250
Professional self-insurance liability	16,511	-	15,575	746	32,832	-	6,140	3,046	-	-	-	-	-	42,018
Other long-term liabilities	11,118	-	38,398	-	49,516	-	1,454	-	-	1,345	403	-	-	52,718
Interest rate swap agreements liability	49,329	-	-	-	49,329	1,389	-	-	-	-	-	-	-	50,718
Long-term debt, net of current portion	349,045	-	101,967	98,218	549,230	10,828	30,198	-	-	-	-	300	-	590,556
Total liabilities	538,596	981	209,248	106,541	855,366	19,895	47,518	20,934	11,298	1,394	404	12,738	(2,534)	967,013
Net assets														
Unrestricted	425,425	1,841	39,574	61,095	527,935	21,604	43,173	13,184	14,699	4,768	537	16,177	-	642,077
Temporarily restricted	-	-	-	575	575	1,734	4,483	-	-	-	9,229	-	-	16,011
Permanently restricted	-	-	-	-	-	882	41	-	-	-	5,252	-	-	6,175
Total net assets	425,425	1,841	39,574	61,670	528,510	24,210	47,697	13,184	14,699	4,768	15,018	16,177	-	664,263
Total liabilities and net assets	\$ 964,021	\$ 2,822	\$ 248,822	\$ 168,211	\$ 1,383,876	\$ 44,105	\$ 95,215	\$ 34,118	\$ 25,997	\$ 6,162	\$ 15,422	\$ 28,915	\$ (2,534)	\$ 1,631,276

Kettering Health Network

Consolidating Statement of Operations and Changes in Net Assets (In Thousands)

Year Ended December 31, 2012

	Kettering Medical Center	Kettering College	Grandview Medical Center	Son Medical Center	Total Obligated Group	Greene Memorial Hospital	Fort Hamilton Hospital	Kettering Adventist Healthcare	Affiliated Health Services, Inc	KettCor	Medical Center Foundation	Kettering Physicians Network	Eliminations	Consolidated
Unrestricted revenue														
Patient service revenue (net of contractual provision and discounts)	\$ 604,460	\$ 9,012	\$ 316,957	\$ 35,483	\$ 965,912	\$ 62,837	\$ 110,056	\$ -	\$ 15,736	\$ -	\$ -	\$ 105,758	\$ (40,687)	\$ 1,219,612
Provision for bad debts	(25,493)	-	(20,281)	(4,046)	(49,820)	(7,832)	(8,958)	-	(89)	-	-	(2,633)	-	(69,332)
Net patient service revenue	578,967	9,012	296,676	31,437	916,092	55,005	101,098	-	15,647	-	-	103,125	(40,687)	1,150,280
(Other revenue net)	28,591	12,273	15,356	674	56,894	6,321	4,009	30,602	6,166	5,196	5	11,361	(42,903)	77,651
Total unrestricted revenue	607,558	21,285	312,032	32,111	972,986	61,326	105,107	30,602	21,813	5,196	5	114,486	(83,590)	1,227,931
Expenses														
Salaries and wages	205,680	7,704	100,243	18,072	331,699	24,649	43,859	16,886	10,775	1,148	350	98,500	(9,491)	518,375
Employee benefits	48,850	2,331	23,079	3,966	78,226	6,314	10,439	6,837	2,685	307	100	17,633	(4,174)	118,367
Supplies and other	141,133	2,330	84,233	14,053	241,749	14,351	20,874	5,312	5,638	3,357	153	29,941	(553)	320,822
Purchased services	94,487	730	60,206	8,596	164,019	14,584	21,262	-	1,208	446	531	15,320	(69,354)	148,016
Depreciation	38,120	319	18,747	8,971	66,157	4,389	6,927	-	2,047	70	-	917	-	80,507
Interest	12,862	-	6,174	6,157	25,193	527	1,789	-	618	231	-	27	(18)	28,367
Total expenses	541,132	13,414	292,682	59,815	907,043	64,814	105,150	29,035	22,971	5,559	1,134	162,338	(83,590)	1,214,454
Excess of unrestricted revenue over expenses (expenses over unrestricted revenue) before support allocation and other income (loss)	66,426	7,871	19,350	(27,704)	65,943	(3,488)	(43)	1,567	(1,158)	(363)	(1,129)	(47,852)	-	13,477
Support allocation	(343)	(6,351)	(2,080)	-	(8,774)	125	(2,127)	-	-	-	709	10,067	-	-
Excess of unrestricted revenue over expenses (expenses over unrestricted revenue) before other income (loss)	66,083	1,520	17,270	(27,704)	57,169	(3,363)	(2,170)	1,567	(1,158)	(363)	(420)	(37,785)	-	13,477
(Other income (loss))														
Income (loss) on interest rate swap agreements	2,496	-	-	-	2,496	(139)	-	-	-	-	-	-	-	2,357
(Other primarily investment income)	28,963	-	(1,611)	(374)	26,978	711	3,023	-	50	1,198	371	-	-	32,331
Loss on early extinguishment of debt	(1,990)	-	(402)	-	(2,392)	-	-	-	-	-	-	-	-	(2,392)
Excess of unrestricted revenue over expenses (expenses over unrestricted revenue)	95,552	1,520	15,257	(28,078)	84,251	(2,791)	853	1,567	(1,108)	835	(49)	(37,785)	-	45,773

Continued on next page

Kettering Health Network

Consolidating Statement of Operations and Changes in Net Assets (continued) (In Thousands)

Year Ended December 31, 2012

	Kettering Medical Center	Kettering College	Grandview Medical Center	Son Medical Center	Total Obligated Group	Greene Memorial Hospital	Fort Hamilton Hospital	Kettering Adventist Healthcare	Affiliated Health Services, Inc	KettCor	Medical Center Foundation	Kettering Physicians Network	Eliminations	Consolidated
Unrestricted net assets														
Excess of unrestricted revenue over expenses (expenses over unrestricted revenue)	\$ 95,552	\$ 1,520	\$ 15,257	\$ (28,078)	\$ 84,251	\$ (2,791)	\$ 853	\$ 1,567	\$ (1,108)	\$ 835	\$ (49)	\$ (37,785)	\$ -	\$ 45,773
Net assets released from restrictions for capital	1,118	-	30	4,500	5,648	4,486	890	-	-	-	-	-	-	11,024
Transfer (to) from affiliate	(70,027)	(1,913)	(10,746)	55,216	(27,470)	(2,672)	(5,603)	(3,681)	2,786	(901)	-	37,541	-	-
Change in plan assets and benefit obligation of pension plan	-	-	(5,640)	-	(5,640)	-	-	-	-	-	-	-	-	(5,640)
(Other changes) net	86	-	-	-	86	132	-	(1,199)	(2,039)	-	-	-	-	(2,020)
Increase (decrease) in unrestricted net assets	26,729	(393)	(1,099)	31,638	56,875	(845)	(3,860)	(2,313)	(361)	(66)	(49)	(244)	-	49,137
Temporarily restricted net assets														
Contributions and investment income (loss) from restricted investments	309	-	46	-	355	4,620	1,092	-	-	-	1,686	-	-	7,753
Net assets released from restrictions for capital	-	-	(30)	(4,500)	(4,530)	(4,486)	(890)	-	-	-	(1,118)	-	-	(11,024)
Net assets released from restrictions for operations	(309)	-	(86)	-	(395)	(37)	(62)	-	-	-	(917)	-	-	(1,411)
Decrease in temporarily restricted net assets	-	-	(70)	(4,500)	(4,570)	97	140	-	-	-	(349)	-	-	(4,682)
Permanently restricted net assets														
Contributions for endowment funds	-	-	-	-	-	(100)	-	-	-	-	137	-	-	37
Increase in permanently restricted net assets	-	-	-	-	-	(100)	-	-	-	-	137	-	-	37
Increase (decrease) in net assets	26,729	(393)	(1,169)	27,138	52,305	(848)	(3,720)	(2,313)	(361)	(66)	(261)	(244)	-	44,492
Net assets at beginning of year	398,696	2,234	40,743	34,532	476,205	25,058	51,417	15,497	15,060	4,834	15,279	16,421	-	619,771
Net assets at end of year	\$ 425,425	\$ 1,841	\$ 39,574	\$ 61,670	\$ 528,510	\$ 24,210	\$ 47,697	\$ 13,184	\$ 14,699	\$ 4,768	\$ 15,018	\$ 16,177	\$ -	\$ 664,263

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