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Form **990**

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

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

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

OMB No 1545-0047

2012

Open to Public Inspection

A For the 2012 calendar year, or tax year beginning 07-01-2012 , 2012, and ending 06-30-2013

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

C Name of organization
FLAGET HEALTHCARE INC

Doing Business As

Number and street (or P O box if mail is not delivered to street address) | Room/suite
4305 NEW SHEPHERDSVILLE ROAD

City or town, state or country, and ZIP + 4
BARDSTOWN, KY 40004

D Employer identification number
61-1345363

E Telephone number
(502) 350-5000

G Gross receipts $ 84,909,165

F Name and address of principal officer
BEVERLY DOWNS
4305 NEW SHEPHERDSVILLE ROAD
BARDSTOWN, KY 40004

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

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

H(c) Group exemption number ▶ 0928

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

J Website: ▶ WWW SJHLEX ORG/FLAGET

K Form of organization ☑ Corporation ☐ Trust ☐ Association ☐ Other ▶

L Year of formation 1951

M State of legal domicile KY

Part I Summary

1 Briefly describe the organization's mission or most significant activities
FLAGET HEALTHCARE, INC 'S VISION IS TO BE THE PREMIER, INTEGRATED, COMPREHENSIVE HEALTH SYSTEM IN THE COMMUNITY PROVIDING HIGH QUALITY CARE CLOSE TO HOME, REDUCING THE INCIDENCE OF DISEASE AND ELIMINATING THE INEQUITIES IN ACCESS TO HEALTHCARE

2 Check this box ▶☐ if the organization discontinued its operations or disposed of more than 25% of its net assets

3	Number of voting members of the governing body (Part VI, line 1a)	**3**	18
4	Number of independent voting members of the governing body (Part VI, line 1b)	**4**	15
5	Total number of individuals employed in calendar year 2012 (Part V, line 2a)	**5**	583
6	Total number of volunteers (estimate if necessary)	**6**	105
7a	Total unrelated business revenue from Part VIII, column (C), line 12	**7a**	8,374
b	Net unrelated business taxable income from Form 990-T, line 34	**7b**	7,374

Activities & Governance

		Prior Year	Current Year
8	Contributions and grants (Part VIII, line 1h)	97,048	34,818
9	Program service revenue (Part VIII, line 2g)	81,285,751	80,294,940
10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	1,993,027	4,317,061
11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	184,361	180,796
12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	83,560,187	84,827,615
13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)	675,072	40,748
14	Benefits paid to or for members (Part IX, column (A), line 4)	0	0
15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	25,001,412	23,424,609
16a	Professional fundraising fees (Part IX, column (A), line 11e)	0	0
b	Total fundraising expenses (Part IX, column (D), line 25) ▶0		
17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	43,666,182	48,366,636
18	Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	69,342,666	71,831,993
19	Revenue less expenses Subtract line 18 from line 12	14,217,521	12,995,622

Revenue

Expenses

		Beginning of Current Year	End of Year
20	Total assets (Part X, line 16)	119,201,969	137,547,515
21	Total liabilities (Part X, line 26)	22,369,022	25,024,196
22	Net assets or fund balances Subtract line 21 from line 20	96,832,947	112,523,319

Net Assets or Fund Balances

Part II Signature Block

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

Sign Here

Signature of officer — Date: 2014-05-15

COLLEEN HOLTON INTERIM CFO
Type or print name and title

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Pamela Krohn				P01210500

Firm's name ▶ CATHOLIC HEALTH INITIATIVES — Firm's EIN ▶ 47-0617373

Firm's address ▶ 198 INVERNESS DRIVE WEST, ENGLEWOOD, CO 80112 — Phone no (303) 298-9100

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

Part III **Statement of Program Service Accomplishments**

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

1 Briefly describe the organization's mission

WE BRING HOPE, IMPROVE HEALTH AND CHANGE LIVES INSPIRED BY OUR CATHOLIC AND JEWISH FAITH HERITAGE, WE SERVE WITH A SPIRIT OF INNOVATION AND COLLABORATION, TRANSFORM HEALTH CARE DELIVERY, PARTNER TO CREATE HEALTHY COMMUNITIES AND ADVOCATE FOR A JUST HEALTH SYSTEM

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 $ 57,144,222 including grants of $ 40,748) (Revenue $ 80,294,940)

SEE SCHEDULE H

4b (Code) (Expenses $ including grants of $) (Revenue $)

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

4d Other program services (Describe in Schedule O)

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

4e **Total program service expenses** ▶ 57,144,222

Part IV Checklist of Required Schedules

			Yes	No
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? *If "Yes," complete Schedule A*	1	Yes	
2	Is the organization required to complete *Schedule B, Schedule of Contributors* (see instructions)?	2	Yes	
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? *If "Yes," complete Schedule C, Part I*	3		No
4	**Section 501(c)(3) organizations.** Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? *If "Yes," complete Schedule C, Part II*	4	Yes	
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? *If "Yes," complete Schedule C, Part III*	5		
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	Yes	
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VIII*	11c		No
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part IX*	11d		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? *If "Yes," complete Schedule I, Parts I and II*	**21**	Yes	
22	Did the organization report more than $5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? *If "Yes," complete Schedule I, Parts I and III*	**22**		No
23	Did the organization answer "Yes" to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? *If "Yes," complete Schedule J*	**23**	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than $100,000 as of the last day of the year, that was issued after December 31, 2002? *If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25*	**24a**		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	**24b**		
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	**24c**		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	**24d**		
25a	**Section 501(c)(3) and 501(c)(4) organizations.** Did the organization engage in an excess benefit transaction with a disqualified person during the year? *If "Yes," complete Schedule L, Part I*	**25a**		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? *If "Yes," complete Schedule L, Part I*	**25b**		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highest compensated employee, or disqualified person outstanding as of the end of the organization's tax year? *If "Yes," complete Schedule L, Part II*	**26**		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? *If "Yes," complete Schedule L, Part III*	**27**		No
28	Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	**28a**		No
b	A family member of a current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	**28b**		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? *If "Yes," complete Schedule L, Part IV*	**28c**		No
29	Did the organization receive more than $25,000 in non-cash contributions? *If "Yes," complete Schedule M*	**29**		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? *If "Yes," complete Schedule M*	**30**		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? *If "Yes," complete Schedule N, Part I*	**31**		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? *If "Yes," complete Schedule N, Part II*	**32**		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301 7701-2 and 301 7701-3? *If "Yes," complete Schedule R, Part I*	**33**	Yes	
34	Was the organization related to any tax-exempt or taxable entity? *If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1*	**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)? *If "Yes," complete Schedule R, Part V, line 2*	**35b**	Yes	
36	**Section 501(c)(3) organizations.** Did the organization make any transfers to an exempt non-charitable related organization? *If "Yes," complete Schedule R, Part V, line 2*	**36**		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? *If "Yes," complete Schedule R, Part VI*	**37**		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 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 . .	1a	2		
b	Enter the number of Forms W-2G included in line 1a *Enter -0-* if not applicable	1b	0		
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c		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	2a	583		
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? **Note.** If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)	2b		Yes	
3a	Did the organization have unrelated business gross income of $1,000 or more during the year? . . .	3a		Yes	
b	If "Yes," has it filed a Form 990-T for this year? *If "No," provide an explanation in Schedule O*	3b		Yes	
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?	4a			No
b	If "Yes," enter the name of the foreign country ▶ _____ See instructions for filing requirements for Form TD F 90-22 1, Report of Foreign Bank and Financial Accounts				
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year? . .	5a			No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b			No
c	If "Yes," to line 5a or 5b, did the organization file Form 8886-T?	5c			
6a	Does the organization have annual gross receipts that are normally greater than $100,000, and did the organization solicit any contributions that were not tax deductible as charitable contributions? . . .	6a			No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b			
7	**Organizations that may receive deductible contributions under section 170(c).**				
a	Did the organization receive a payment in excess of $75 made partly as a contribution and partly for goods and services provided to the payor?	7a			No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b			
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c			No
d	If "Yes," indicate the number of Forms 8282 filed during the year	7d			
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e			No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? . .	7f			No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g			
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h			
8	**Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.** Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8			
9	**Sponsoring organizations maintaining donor advised funds.**				
a	Did the organization make any taxable distributions under section 4966?	9a			
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b			
10	**Section 501(c)(7) organizations.** Enter				
a	Initiation fees and capital contributions included on Part VIII, line 12 . . .	10a			
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	10b			
11	**Section 501(c)(12) organizations.** Enter				
a	Gross income from members or shareholders	11a			
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them)	11b			
12a	**Section 4947(a)(1) non-exempt charitable trusts.** Is the organization filing Form 990 in lieu of Form 1041?	12a			
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year	12b			
13	**Section 501(c)(29) qualified nonprofit health insurance issuers.**				
a	Is the organization licensed to issue qualified health plans in more than one state? **Note.** See the instructions for additional information the organization must report on Schedule O	13a			
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	13b			
c	Enter the amount of reserves on hand	13c			
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a			No
b	If "Yes," has it filed a Form 720 to report these payments? *If "No," provide an explanation in Schedule O* . .	14b			

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

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

Section A. Governing Body and Management

			Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year **1a** 18			
	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 **1b** 15			
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**	Yes	
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**	Yes	
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**	Yes	
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**		No
b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?	**16b**		

Section C. Disclosure

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

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 ▶ Colleen Holton 539 South Fourth Street Louisville, KY (502) 587-4710

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			
See Additional Data Table										

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

(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			
1b **Sub-Total** . . . . . ▶										
c **Total from continuation sheets to Part VII, Section A** . . . . ▶										
d **Total (add lines 1b and 1c)** . . . . . ▶								1,348,579	6,012,974	961,092

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 ▶ 12

			Yes	No
3	Did the organization list any **former** officer, director or trustee, key employee, or highest compensated employee on line 1a? *If "Yes," complete Schedule J for such individual*	**3**	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? *If "Yes," complete Schedule J for such individual*	**4**	Yes	
5	Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? *If "Yes," complete Schedule J for such person*	**5**		No

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than $100,000 of compensation from the organization Report compensation for the calendar year ending with or within the organization's tax year

(A) Name and business address	(B) Description of services	(C) Compensation
EAGLE HOSPITAL PHYSICIANS 16000 N DALLAS PKWY STE 450 DALLAS TX 75248	HOSPITALIST SERVICES	1,637,300
EAG HEALTHCARE LLE 111 CONGRESS AVE STE 400 AUSTIN TX 78701	ANESTHESIA SERVICES	975,000
MESSER CONSTRUCTION CO 5158 FISHWICK DR CINCINNATI OH 45216	MOB CONSTRUCTION	497,319
KENTUCKY ORTHOPEDIC REHAB LLC 875 PENNSYLVANIA AVE BARDSTOWN KY 40004	THERAPY SERVICES	373,300
UNITED SURGICAL ASSOC 1401 HARRODSBURG RD C-100 LEXINGTON KY 40504	RADIATION ONCOLOGY PROF SVCS	353,250
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 ▶ 18		

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	34,818			
	e	Government grants (contributions)	1e				
	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		34,818			
Program Service Revenue			Business Code				
	2a	PATIENT SERVICES	900099	80,188,177	80,188,177		
	b	RENTAL INCOME	900099	106,763	106,763		
	c			0			
	d			0			
	e			0			
	f	All other program service revenue		0	0	0	0
	g	**Total.** Add lines 2a–2f		80,294,940			
	3	Investment income (including dividends, interest, and other similar amounts)		1,854,180		-447	1,854,627
	4	Income from investment of tax-exempt bond proceeds		0			
	5	Royalties		0			
			(i) Real / (ii) Personal				
	6a	Gross rents	0 /				
	b	Less rental expenses	/				
	c	Rental income or (loss)	0 / 0				
	d	Net rental income or (loss)		0			0
			(i) Securities / (ii) Other				
	7a	Gross amount from sales of assets other than inventory	2,544,431 / 0				
	b	Less cost or other basis and sales expenses	/ 81,550				
	c	Gain or (loss)	2,544,431 / -81,550				
	d	Net gain or (loss)		2,462,881			2,462,881
Other Revenue	8a	Gross income from fundraising events (not including $ _____ of contributions reported on line 1c) See Part IV, line 18	a				
	b	Less direct expenses	b				
	c	Net income or (loss) from fundraising events		0			
	9a	Gross income from gaming activities See Part IV, line 19	a				
	b	Less direct expenses	b				
	c	Net income or (loss) from gaming activities		0			
	10a	Gross sales of inventory, less returns and allowances	a				
	b	Less cost of goods sold	b				
	c	Net income or (loss) from sales of inventory		0			
		Miscellaneous Revenue	Business Code				
	11a	CAFETERIA	722100	124,447			124,447
	b	MEDICAL RECORDS REVENUE/TRANSCRIPTION	541200	29,929			29,929
	c	SERVICES SOLD	900099	4,504			4,504
	d	All other revenue		21,916	0	8,821	13,095
	e	**Total.** Add lines 11a–11d		180,796			
	12	**Total revenue.** See Instructions		84,827,615	80,294,940	8,374	4,489,483

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	40,748	40,748		
2 Grants and other assistance to individuals in the United States See Part IV, line 22	0			
3 Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16	0			
4 Benefits paid to or for members	0			
5 Compensation of current officers, directors, trustees, and key employees	489,259		489,259	
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	0			
7 Other salaries and wages	17,534,223	16,792,272	741,951	
8 Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)	941,844	912,121	29,723	
9 Other employee benefits	3,173,184	2,918,626	254,558	
10 Payroll taxes	1,286,099	1,171,379	114,720	
11 Fees for services (non-employees)				
a Management	0			
b Legal	168,666		168,666	
c Accounting	0			
d Lobbying	0			
e Professional fundraising services See Part IV, line 17	0			
f Investment management fees	0			
g Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O)	9,266,536	7,187,384	2,079,152	0
12 Advertising and promotion	30,489	757	29,732	
13 Office expenses	1,516,095	982,116	533,979	
14 Information technology	3,467,918	2,635,982	831,936	
15 Royalties . .	0			
16 Occupancy	1,456,039	1,102,388	353,651	
17 Travel	95,231	65,824	29,407	
18 Payments of travel or entertainment expenses for any federal, state, or local public officials	0			
19 Conferences, conventions, and meetings	5,415	1,405	4,010	
20 Interest	748,502	748,502		
21 Payments to affiliates	1,526,523		1,526,523	
22 Depreciation, depletion, and amortization	2,694,294	1,047,362	1,646,932	
23 Insurance	520,326	32,464	487,862	
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 UNRELATED BUSINESS TAXES	6,221		6,221	
b MEDICAL SUPPLIES	11,760,789	11,754,511	6,278	
c BAD DEBTS	9,211,574	9,211,574		
d INTERCOMPANY ALLOCATIONS	3,849,527		3,849,527	
e All other expenses	2,042,491	538,807	1,503,684	0
25 **Total functional expenses.** Add lines 1 through 24e	71,831,993	57,144,222	14,687,771	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)	0			

Part X Balance Sheet

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

				(A) Beginning of year		(B) End of year
Assets	1	Cash—non-interest-bearing		10,457	1	1,525
	2	Savings and temporary cash investments		3,190,425	2	72,154
	3	Pledges and grants receivable, net			3	
	4	Accounts receivable, net		11,809,492	4	10,164,062
	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	0
	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	0
	7	Notes and loans receivable, net		216,850	7	139,015
	8	Inventories for sale or use		1,286,775	8	1,379,567
	9	Prepaid expenses and deferred charges		340,583	9	169,039
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a 58,997,531			
	b	Less accumulated depreciation	10b 22,155,838	32,009,865	10c	36,841,693
	11	Investments—publicly traded securities			11	
	12	Investments—other securities See Part IV, line 11		70,324,281	12	85,877,326
	13	Investments—program-related See Part IV, line 11		0	13	0
	14	Intangible assets			14	
	15	Other assets See Part IV, line 11		13,241	15	2,903,134
	16	**Total assets.** Add lines 1 through 15 (must equal line 34)		119,201,969	16	137,547,515
Liabilities	17	Accounts payable and accrued expenses		5,257,444	17	3,768,654
	18	Grants payable			18	
	19	Deferred revenue		318,102	19	413,931
	20	Tax-exempt bond liabilities			20	
	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	0
	23	Secured mortgages and notes payable to unrelated third parties			23	
	24	Unsecured notes and loans payable to unrelated third parties			24	0
	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		16,793,476	25	20,841,611
	26	**Total liabilities.** Add lines 17 through 25		22,369,022	26	25,024,196
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		96,832,947	27	112,523,319
	28	Temporarily restricted net assets		0	28	0
	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		96,832,947	33	112,523,319
	34	Total liabilities and net assets/fund balances		119,201,969	34	137,547,515

Part XI Reconcilliation of Net Assets

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

1	Total revenue (must equal Part VIII, column (A), line 12)	1	84,827,615
2	Total expenses (must equal Part IX, column (A), line 25)	2	71,831,993
3	Revenue less expenses Subtract line 2 from line 1	3	12,995,622
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	96,832,947
5	Net unrealized gains (losses) on investments	5	3,274,127
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	-579,377
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	112,523,319

Part XII Financial Statements and Reporting

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

			Yes	No
1	Accounting method used to prepare the Form 990 ☐ Cash ☑ Accrual ☐ Other _____ If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O			
2a	Were the organization's financial statements compiled or reviewed by an independent accountant?	2a		No
	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			
b	Were the organization's financial statements audited by an independent accountant?	2b	Yes	
	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			
c	If "Yes," to line 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant?	2c	Yes	
	If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O			
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?	3a		No
b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits	3b		

Additional Data

Software ID: 12000266
Software Version: v2012.1.0
EIN: 61-1345363
Name: FLAGET HEALTHCARE INC

Form 990, Part VII - Compensation of Officers, Directors,Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

(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			
BRUCE KLOCKARS FORMER CHIEF EXECUTIVE OFFICER	10 00 50 00	X		X				0	564,715	44,649
MELVIN ALEXANDER CFO KYOne Health, Treasurer Board	20 00 41 00	X		X				0	54,742	3,825
RICHARD SCHULTZ VICE CHAIR	2 00 4 00	X		X				0	0	0
ROBERT HEWETT CHAIR	3 00 8 00	X		X				0	0	0
RUTH WILLIAMS BRINKLEY BOARD OF DIRECTORS/PRESIDENT & CEO OF KOH	5 00 55 00	X		X				0	994,417	134,196
DAVID FENNELL Board of Director	2 00 5 00	X						0	0	0
DAVID L DUNN BOARD OF DIRECTORS	2 00 8 00	X						0	0	0
GERALD TEMES MD BOARD OF DIRECTORS	2 00 4 00	X						0	0	0
JANE BURKS BOARD OF DIRECTORS	2 00 4 00	X						0	0	0
JANE J CHILES BOARD OF DIRECTORS	2 00 4 00	X						0	0	0
LOU ANN ATLAS BOARD OF DIRECTORS	2 00 4 00	X						0	0	0
MICHAEL ROWAN FACHE CHI EVP/COO	2 00 58 00	X						0	1,652,367	220,553
MIKE ADES BOARD OF DIRECTORS	2 00 4 00	X						0	0	0
MILLER HOFFMAN BOARD OF DIRECTORS	2 00 4 00	X						0	0	0
PAUL EDGETT SR VICE PRESIDENT CHI	2 00 58 00	X						0	734,377	86,500
ROBERT C HUGHES MD BOARD OF DIRECTORS	2 00 6 00	X						0	0	0
ROBERT W ROUNSAVALL III BOARD OF DIRECTORS	2 00 6 00	X						0	0	0
RUSSELL WILLIAMS MD BOARD OF DIRECTORS	2 00 4 00	X						0	0	0
SR ELIZABETH WENDELN Board of Directors	2 00 5 00	X						0	0	0
THOMAS MECHAS MD BOARD OF DIRECTORS	2 00 4 00	X						0	10,775	0
BEVERLY DOWNS PRESIDENT	50 00 1 00			X				227,877	0	54,952
COLLEEN HOLTON VP FIN PLANNING/INTERIM VP FIN REPORTING	40 00 20 00			X				0	0	0
GARY ERMERS Former Chief Financial Officer	5 00 55 00			X				0	559,816	68,637
RON FARR FORMER INTERIM CFO	2 00 58 00			X				0	802,514	115,754
SHARON HAGER Secretary	1 00 54 00			X				0	383,074	32,011

Form 990, Part VII - Compensation of Officers, Directors,Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

(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			
TAMMY HOWELL INTERIM VP FIN REPORTING/DIRECTOR OF ACCOUNTING	5 00 55 00			X				0	106,301	14,575
JOHN BRADFORD VICE PRESIDENT FINANCE	50 00 1 00				X			170,496	0	35,934
DEBORAH COWLES VICE PRESIDENT HUMAN RESOURCES	50 00 0					X		1,907	141,815	19,404
JENNIFER CLARK PHYSICIST	40 00 0					X		146,404	0	29,950
MICHELLE MATTINGLY DIRECTOR, PHARMACY	40 00 0					X		145,043	0	25,568
MONTE MARTIN MD ONCOLOGIST	40 00 0					X		513,591	0	40,515
RAZA MALIK MD INTERNAL MED-GENERAL	40 00 0					X		143,261	8,061	34,069

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SCHEDULE A (Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

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

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

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
FLAGET HEALTHCARE INC

Employer identification number
61-1345363

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?

		Yes	No
(i) A person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the supported organization?	**11g(i)**		
(ii) A family member of a person described in (i) above?	**11g(ii)**		
(iii) A 35% controlled entity of a person described in (i) or (ii) above?	**11g(iii)**		

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

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1 - 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document?		(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 III **Support Schedule for Organizations Described in Section 509(a)(2)**
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support

Calendar year (or fiscal year beginning in) ▶	(a) 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

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SCHEDULE C
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527

▶ **Complete if the organization is described below.** ▶ **Attach to Form 990 or Form 990-EZ.**
▶ **See separate instructions.**

OMB No 1545-0047

2012

Open to Public Inspection

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

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

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

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

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

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

Name of the organization	**Employer identification number**
FLAGET HEALTHCARE INC	61-1345363

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

1 Provide a description of the organization's direct and indirect political campaign activities in Part IV

2 Political expenditures ▶ $ _____

3 Volunteer hours _____

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

1 Enter the amount of any excise tax incurred by the organization under section 4955 ▶ $ _____

2 Enter the amount of any excise tax incurred by organization managers under section 4955 ▶ $ _____

3 If the organization incurred a section 4955 tax, did it file Form 4720 for this year? ☐ **Yes** ☐ **No**

4a Was a correction made? ☐ **Yes** ☐ **No**

b If "Yes," describe in Part IV

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

1 Enter the amount directly expended by the filing organization for section 527 exempt function activities ▶ $ _____

2 Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt function activities ▶ $ _____

3 Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b ▶ $ _____

4 Did the filing organization file **Form 1120-POL** for this year? ☐ **Yes** ☐ **No**

5 Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization's funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV

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

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

A Check ▶ ☐ if the filing organization belongs to an affiliated group (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures)

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

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)	(a) Filing organization's totals	(b) Affiliated group totals
1a Total lobbying expenditures to influence public opinion (grass roots lobbying)		
b Total lobbying expenditures to influence a legislative body (direct lobbying)		
c Total lobbying expenditures (add lines 1a and 1b)		
d Other exempt purpose expenditures		
e Total exempt purpose expenditures (add lines 1c and 1d)		
f Lobbying nontaxable amount Enter the amount from the following table in both columns		
g Grassroots nontaxable amount (enter 25% of line 1f)		
h Subtract line 1g from line 1a If zero or less, enter -0-		
i Subtract line 1f from line 1c If zero or less, enter -0-		

If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:
Not over $500,000	20% of the amount on line 1e
Over $500,000 but not over $1,000,000	$100,000 plus 15% of the excess over $500,000
Over $1,000,000 but not over $1,500,000	$175,000 plus 10% of the excess over $1,000,000
Over $1,500,000 but not over $17,000,000	$225,000 plus 5% of the excess over $1,500,000
Over $17,000,000	$1,000,000

j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year? ☐ Yes ☐ No

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

Lobbying Expenditures During 4-Year Averaging Period

Calendar year (or fiscal year beginning in)	(a) 2009	(b) 2010	(c) 2011	(d) 2012	(e) Total
2a Lobbying nontaxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots nontaxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

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

	For each "Yes" response to lines 1a through 1i below, provide in Part IV a detailed description of the lobbying activity.	(a) Yes	(a) No	(b) Amount
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
a	Volunteers?		No	
b	Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?		No	
c	Media advertisements?		No	
d	Mailings to members, legislators, or the public?		No	
e	Publications, or published or broadcast statements?		No	
f	Grants to other organizations for lobbying purposes?	Yes		1,310
g	Direct contact with legislators, their staffs, government officials, or a legislative body?		No	
h	Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
i	Other activities?		No	
j	Total Add lines 1c through 1i			1,310
2a	Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
b	If "Yes," enter the amount of any tax incurred under section 4912			
c	If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
d	If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?			

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

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

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

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

Part IV Supplemental Information

Complete this part to provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, Part II-A (affiliated group list), Part II-A, line 2, and Part II-B, line 1 Also, complete this part for any additional information

Identifier	Return Reference	Explanation
Description of the activities reported on Lines 1a through 1i	Schedule C, Part II-B, Line 1	THE PORTION OF ORGANIZATION DUES THAT ARE RELATED TO LOBBYING ARE AS FOLLOWS AMERICAN HOSPITAL ASSOCIATION - $944 AND CATHOLIC HEALTH ASSOCIATION - $366,

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SCHEDULE D (Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

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

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
FLAGET HEALTHCARE INC

Employer identification number
61-1345363

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

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

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

5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds? ☐ Yes ☐ No

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

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

8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and section 170(h)(4)(B)(ii)? ☐ Yes ☐ No

9 In Part 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

		Amount
c Beginning balance	1c	
d Additions during the year	1d	
e Distributions during the year	1e	
f Ending balance	1f	

2a Did the organization include an amount on Form 990, Part X, line 21? ☐ Yes ☐ No

b If "Yes," explain the arrangement in Part 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	(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

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

4 Describe in Part 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		2,846,461		2,846,461
b Buildings		15,864,792	3,787,286	12,077,506
c Leasehold improvements		1,057,848	317,226	740,622
d Equipment		29,933,866	16,920,874	13,012,992
e Other		9,294,564	1,130,452	8,164,112
Total. Add lines 1a through 1e *(Column (d) must equal Form 990, Part X, column (B), line 10(c).)* ▶				36,841,693

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

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives	0	
(2) Closely-held equity interests	0	
(3) Other		
(A) CHI OIP - FIXED INCOME	42,392,204	F
(B) CHI OIP - EQUITY SECURITIES	43,485,122	F
Total. *(Column (b) must equal Form 990, Part X, col (B) line 12)* ▶	85,877,326	

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

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

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

(a) Description	(b) Book value
Total. *(Column (b) must equal Form 990, Part X, col.(B) line 15.)* . . . . . ▶	

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

1 (a) Description of liability	(b) Book value
Federal income taxes	0
INTERCOMPANY PAYABLES	20,320,822
ACCRUED EXPENSES	520,789
Total. *(Column (b) must equal Form 990, Part X, col (B) line 25)* ▶	20,841,611

2. Fin 48 (ASC 740) Footnote In Part XIII, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC 740) Check here if the text of the footnote has been provided in Part XIII ☑

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	0		
e	Add lines **2a** through **2d**			2e	0
3	Subtract line **2e** from line **1**			3	0
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	0		
c	Add lines **4a** and **4b**			4c	0
5	Total revenue Add lines **3** and **4c.** (This must equal Form 990, Part I, line 12)			5	0

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	0		
e	Add lines **2a** through **2d**			2e	0
3	Subtract line **2e** from line **1**			3	0
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	0		
c	Add lines **4a** and **4b**			4c	0
5	Total expenses Add lines **3** and **4c.** (This must equal Form 990, Part I, line 18)			5	0

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
FIN 48 (ASC 740) footnote	Schedule D, Part X, Line 2	FLAGET HEALTHCARE, INC 'S FINANCIAL INFORMATION IS INCLUDED IN THE CONSOLIDATED AUDITED FINANCIAL STATEMENTS OF KENTUCKYONE HEALTH INC , A RELATED ORGANIZATION KENTUCKYONE HEALTH INC 'S FIN 48 (ASC 740) FOOTNOTE FOR THE YEAR ENDED JUNE 30, 2013 READS AS FOLLOWS "MOST OF THE INCOME RECEIVED BY THE SYSTEM AND CERTAIN AFFILIATES IS EXEMPT FROM TAXATION UNDER SECTION 501(A) OF THE IRC SOME OF ITS SUBSIDIARIES ARE TAXABLE ENTITIES, AND SOME OF THE INCOME RECEIVED BY OTHERWISE EXEMPT ENTITIES, ARE SUBJECT TO TAXATION AS UNRELATED BUSINESS INCOME THE SYSTEM FILES FEDERAL INCOME TAX RETURNS AS WELL AS INCOME TAX RETURNS IN KENTUCKY AND INDIANA ASC 740, INCOME TAXES, CLARIFIES THE ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES RECOGNIZED IN A COMPANY'S FINANCIAL STATEMENTS AND PRESCRIBES A RECOGNITION THRESHOLD AND MEASUREMENT ATTRIBUTE FOR THE FINANCIAL STATEMENT RECOGNITION AND MEASUREMENT OF A TAX POSITION TAKEN OR EXPECTED TO BE TAKEN IN A TAX RETURN ASC 740 ALSO PROVIDES GUIDANCE ON DESCRIPTION, CLASSIFICATION, INTEREST AND PENALTIES, ACCOUNTING IN INTERIM PERIODS, DISCLOSURE, AND TRANSITION MANAGEMENT HAS DONE AN ANALYSIS AND DETERMINED THAT NO AMOUNT NEEDED TO BE RECORDED RELATED TO ASC 740 AT JUNE 30, 2013 AND 2012 "

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SCHEDULE H (Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

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

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
FLAGET HEALTHCARE INC

Employer identification number
61-1345363

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 *free* care? If "Yes," indicate which of the following was the FPG family income limit for eligibility for *free* care	3a		No
	☐ 100% ☐ 150% ☐ 200% ☐ Other _____ %			
b	Did the organization use FPG as a factor in determining eligibility for providing *discounted* care? If "Yes," indicate which of the following was the family income limit for eligibility for discounted care	3b		No
	☐ 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"?	4	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	5a	Yes	
b	If "Yes," did the organization's financial assistance expenses exceed the budgeted amount?	5b	Yes	
c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligibile for free or discounted care?	5c		No
6a	Did the organization prepare a community benefit report during the tax year?	6a	Yes	
b	If "Yes," did the organization make it available to the public?	6b	Yes	
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H			

7 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)			9,320,768		9,320,768	14 890 %
b Medicaid (from Worksheet 3, column a)			13,852,482	11,957,354	1,895,128	3 030 %
c Costs of other means-tested government programs (from Worksheet 3, column b)			898,418		898,418	1 440 %
d **Total** Financial Assistance and Means-Tested Government Programs	0	0	24,071,668	11,957,354	12,114,314	19 360 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)	18	7,130	77,453		77,453	0 120 %
f Health professions education (from Worksheet 5)	2	9	20,864		20,864	0 030 %
g Subsidized health services (from Worksheet 6)					0	0 %
h Research (from Worksheet 7)					0	0 %
i Cash and in-kind contributions for community benefit (from Worksheet 8)	7	30,786	166,015		166,015	0 270 %
j **Total.** Other Benefits	27	37,925	264,332	0	264,332	0 420 %
k **Total.** Add lines 7d and 7j	27	37,925	24,336,000	11,957,354	12,378,646	19 780 %

Part II **Community Building Activities** Complete this 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					0	0 %
2	Economic development					0	0 %
3	Community support	1	10,250			0	0 %
4	Environmental improvements					0	0 %
5	Leadership development and training for community members					0	0 %
6	Coalition building					0	0 %
7	Community health improvement advocacy	1		74		74	0 %
8	Workforce development					0	0 %
9	Other	2	11,034	40,712		40,712	0 060 %
10	**Total**	4	21,284	40,786	0	40,786	0 060 %

Part III **Bad Debt, Medicare, & Collection Practices**

Section A. Bad Debt Expense

				Yes	No
1	Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No 15?		1	Yes	
2	Enter the amount of the organization's bad debt expense Explain in Part VI the methodology used by the organization to estimate this amount	2	9,211,574		
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	0		
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	18,995,159		
6	Enter Medicare allowable costs of care relating to payments on line 5	6	18,503,833		
7	Subtract line 6 from line 5 This is the surplus (or shortfall)	7	491,326		
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6 Check the box that describes the method used				

☐ Cost accounting system ☑ Cost to charge ratio ☐ Other

Section C. Collection Practices

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

Part IV **Management Companies and Joint Ventures** (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?
1

	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	FLAGET MEMORIAL HOSPITAL 4305 NEW SHEPHERDSVILLE ROAD BARDSTOWN, KY 40004 WWW FLAGET COM	X	X					X			

Part V Facility Information *(continued)*

Section B. Facility Policies and Practices

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

FLAGET MEMORIAL HOSPITAL

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) 1

			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	**1**	Yes	
	If "Yes," indicate what the CHNA report describes (check all that apply)			
a	☑ A definition of the community served by the hospital facility			
b	☑ Demographics of the community			
c	☑ Existing health care facilities and resources within the community that are available to respond to the health needs of the community			
d	☑ How data was obtained			
e	☑ The health needs of the community			
f	☑ Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups			
g	☑ The process for identifying and prioritizing community health needs and services to meet 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 12			
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**	Yes	
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**		No
5	Did the hospital facility make its CHNA report widely available to the public?	**5**	Yes	
	If "Yes," indicate how the CHNA report was made widely available (check all that apply)			
a	☑ Hospital facility's website			
b	☑ Available upon request from the hospital facility			
c	☐ Other (describe in Part VI)			
6	If the hospital facility addressed needs identified in its most recently conducted 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**		No
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**		No
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 *free* care?	**10**		No
If "Yes," indicate the FPG family income limit for eligibility for free care __% If "No," explain in Part VI the criteria the hospital facility used			
11 Used FPG to determine eligibility for providing *discounted* care?	**11**		No
If "Yes," indicate the FPG family income limit for eligibility for discounted care __% If "No," explain in Part VI the criteria the hospital facility used			
12 Explained the basis for calculating amounts charged to patients?	**12**	Yes	
If "Yes," indicate the factors used in determining such amounts (check all that apply)			
a ☑ Income level			
b ☑ Asset level			
c ☑ Medical indigency			
d ☑ Insurance status			
e ☑ Uninsured discount			
f ☑ Medicaid/Medicare			
g ☐ State regulation			
h ☐ Other (describe in Part VI)			
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?	**14**	Yes	
If "Yes," indicate how the hospital facility publicized the policy (check all that apply)			
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?	**17**		No
If "Yes," check all actions in which the hospital facility or a third party engaged			
a ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ Other similar actions (describe in Part VI)			

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?	**19**	Yes	
If "No," indicate why			
a ☐ The hospital facility did not provide care for any emergency medical conditions			
b ☐ The hospital facility's policy was not in writing			
c ☐ The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)			
d ☐ Other (describe in Part VI)			

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?	**21**		No
If "Yes," explain in Part VI			
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?	**22**		No
If "Yes," explain in Part VI			

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?

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

Part VI Supplemental Information

Complete this part to provide the following information

1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, 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
Eligibility criteria for free or discounted care	Schedule H, Part I, Line 3c	WHEN CATHOLIC HEALTH INITIATIVES (THE ULTIMATE PARENT ORGANIZATION TO FLAGET HEALTHCARE, INC) ESTABLISHED ITS FINANCIAL ASSISTANCE POLICY IT WAS DETERMINED THAT ESTABLISHING A HOUSEHOLD INCOME SCALE BASED ON THE HUD VERY LOW INCOME GUIDELINES MORE ACCURATELY REFLECTS THE SOCIOECONOMIC DISPERSIONS AMONG URBAN AND RURAL COMMUNITIES IN 17 STATES SERVED BY CHI HOSPITALS AND HEALTH CARE FACILITIES IN COMPARING HUD GUIDELINES TO THE FEDERAL POVERTY GUIDELINES ("FPG"), WE FIND THAT ON AVERAGE HUD GUIDELINES COMPUTE TO APPROXIMATELY 200% TO 250% (AND SOMETIMES 300%) OF FPG FLAGET HEALTHCARE, INC BASES ITS FINANCIAL ASSISTANCE ELIGIBILITY ON HUD'S 130% OF VERY LOW INCOME GUIDELINES BASED ON GEOGRAPHY, AND AFFORDS THE UNINSURED AND UNDERINSURED THE ABILITY TO OBTAIN FINANCIAL ASSISTANCE WRITE-OFFS, BASED ON A SLIDING SCALE, RANGING FROM 25%-100% OF CHARGES AN INDIVIDUAL'S INCOME UNDER THE HUD GUIDELINES IS A SIGNIFICANT FACTOR IN DETERMINING ELIGIBILITY FOR FINANCIAL ASSISTANCE HOWEVER, IN DETERMINING WHETHER TO EXTEND DISCOUNTED OR FREE CARE TO A PATIENT, THE PATIENT'S ASSETS MAY ALSO BE TAKEN INTO CONSIDERATION FOR EXAMPLE, A PATIENT SUFFERING A CATASTROPHIC ILLNESS MAY HAVE A REASONABLE LEVEL OF INCOME, BUT A LOW LEVEL OF LIQUID ASSETS SUCH THAT THE PAYMENT OF MEDICAL BILLS WOULD BE SERIOUSLY DETRIMENTAL TO THE PATIENT'S BASIC FINANCIAL (AND ULTIMATELY PHYSICAL) WELL-BEING AND SURVIVAL SUCH A PATIENT MAY BE EXTENDED DISCOUNTED OR FREE CARE BASED UPON THE FACTS AND CIRCUMSTANCES
Community benefit report prepared by related organization	Schedule H, Part I, Line 6a	FLAGET HEALTHCARE, INC DOES NOT PREPARE ITS OWN ANNUAL WRITTEN COMMUNITY BENEFIT REPORT HOWEVER, ITS COMMUNITY BENEFIT REPORT IS CONTAINED IN THE REPORT OF A RELATED ORGANIZATION, KENTUCKYONE HEALTH, INC , EIN 61-1029769

Identifier	ReturnReference	Explanation
Costing Methodology used to calculate financial assistance	Schedule H, Part I, Line 7	A COST ACCOUNTING SYSTEM WAS NOT USED TO COMPUTE AMOUNTS IN THE TABLE, RATHER COSTS IN THE TABLE WERE COMPUTED USING THE FY 2013 COST REPORT THE COST-TO-CHARGE RATIO COVERS ALL PATIENT SEGMENTS THE COST-TO-CHARGE RATIO FOR THE YEAR ENDED 6/30/13 WAS COMPUTED USING THE FOLLOWING FORMULA OPERATING EXPENSE (BEFORE RESTRUCTURING, IMPAIRMENT AND OTHER LOSSES) DIVIDED BY GROSS PATIENT REVENUE BASED ON THAT FORMULA, $51,188,227 /$198,461,132 RESULTS IN A 25 79% COST-TO-CHARGE RATIO WORKSHEET 2 WAS NOT USED TO DERIVE THE COST-TO-CHARGE RATIO
Bad Debt Expense excluded from financial assistance calculation	Schedule H, Part I, Line 7, column(f)	9,211,575

Identifier	ReturnReference	Explanation
Bad debt expense - methodology used to estimate amount	Schedule H, Part III, Line 2	COSTING METHODOLOGY FOR AMOUNTS REPORTED ON LINE 2 IS DETERMINED USING THE ORGANIZATION'S COST/CHARGE RATIO OF 25 79% WHEN DISCOUNTS ARE EXTENDED TO SELF-PAY PATIENTS, THESE PATIENT ACCOUNT DISCOUNTS ARE RECORDED AS A REDUCTION IN REVENUE, NOT AS BAD DEBT EXPENSE
Bad debt expense - methodology used to estimate amount as community benefit	Schedule H, Part III, Line 3	FLAGET HEALTHCARE, INC DOES NOT BELIEVE THAT ANY PORTION OF BAD DEBT EXPENSE COULD REASONABLY BE ATTRIBUTED TO PATIENTS WHO QUALIFY FOR FINANCIAL ASSISTANCE SINCE AMOUNTS DUE FROM THOSE INDIVIDUALS' ACCOUNTS WILL BE RECLASSIFIED FROM BAD DEBT EXPENSE TO CHARITY CARE WITHIN 30 DAYS FOLLOWING THE DATE THAT THE PATIENT IS DETERMINED TO QUALIFY FOR CHARITY CARE

Identifier	ReturnReference	Explanation
Bad debt expense - financial statement footnote	Schedule H, Part III, Line 4	FLAGET HEALTHCARE, INC DOES NOT ISSUE SEPARATE COMPANY AUDITED FINANCIAL STATEMENTS HOWEVER, THE ORGANIZATION IS INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS OF KENTUCYONE HEALTH INC THE CONSOLIDATED FOOTNOTE READS AS FOLLOWS "PATIENT RECEIVABLES AND NET PATIENT SERVICE REVENUE ARE DERIVED PRIMARILY FROM PATIENTS WHO RESIDE IN KENTUCKY AND SOUTHERN INDIANA PATIENT RECEIVABLES CONSIST OF AMOUNTS DUE FROM INDIVIDUAL PATIENTS AND THIRD-PARTY PAYORS, INCLUDING FEDERAL AND STATE PROGRAMS AND COMMERCIAL INSURANCE COMPANIES FOR HEALTH CARE SERVICES RENDERED MANAGEMENT MAINTAINS AN ALLOWANCE FOR DOUBTFUL ACCOUNTS TO RESERVE FOR ESTIMATED LOSSES BASED ON THE LENGTH OF TIME THE ACCOUNT HAS BEEN PAST DUE AND HISTORICAL COLLECTION EXPERIENCE IN ACCORDANCE WITH ACCOUNTING STANDARDS UPDATE NO 2011-07, PRESENTATION AND DISCLOSURE OF PATIENT SERVICE REVENUE, PROVISION FOR BAD DEBTS, AND ALLOWANCE FOR DOUBTFUL ACCOUNTS FOR CERTAIN HEALTH ENTITIES, THE PROVISION FOR DOUBTFUL ACCOUNTS IS PRESENTED ON THE CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS AS A DEDUCTION FROM PATIENT SERVICES REVENUES (NET OF CONTRACTUAL ALLOWANCES AND DISCOUNTS) SINCE THE SYSTEM ACCEPTS AND TREATS ALL PATIENTS WITHOUT REGARD TO THE ABILITY TO PAY
Community benefit & methodology for determining medicare costs	Schedule H, Part III, Line 8	USING ESSENTIALLY THE SAME MEDICARE COST REPORT PRINCIPLES AS TO THE ALLOCATION OF GENERAL SERVICES COSTS AND "APPORTIONMENT" METHODS, THE "CHI WORKBOOK" CALCULATES A PAYERS' GROSS ALLOWABLE COSTS BY SERVICE (SO AS TO FACILITATE A CORRESPONDING COMPARISON BETWEEN GROSS ALLOWABLE COSTS AND ULTIMATE PAYMENTS RECEIVED) THE TERM "GROSS ALLOWABLE COSTS" MEANS COSTS BEFORE ANY DEDUCTIBLES OR CO-INSURANCE ARE SUBTRACTED FLAGET HEALTHCARE, INC 'S ULTIMATE REIMBURSEMENT WILL BE REDUCED BY ANY APPLICABLE COPAYMENT/ DEDUCTIBLE WHERE MEDICARE IS THE SECONDARY INSURER, AMOUNTS DUE FROM THE INSURED'S PRIMARY PAYER WERE NOT SUBTRACTED FROM MEDICARE ALLOWABLE COSTS BECAUSE THE AMOUNTS ARE TYPICALLY IMMATERIAL ALTHOUGH NOT PRESENTED ON THE MEDICARE COST REPORT, IN ORDER TO FACILITATE A MORE ACCURATE UNDERSTANDING OF THE "TRUE" COST OF SERVICES (FOR "SHORTFALL" PURPOSES) THE CHI WORKBOOK ALLOWS A HEALTH CARE FACILITY NOT TO OFFSET COSTS THAT MEDICARE CONSIDERS TO BE NON-ALLOWABLE, BUT FOR WHICH THE FACILITY CAN LEGITIMATELY ARGUE ARE RELATED TO THE CARE OF THE FACILITY'S PATIENTS IN ADDITION, ALTHOUGH NOT REPORTABLE ON THE MEDICARE COST REPORT, THE CHI WORKBOOK INCLUDES THE COST OF SERVICES THAT ARE PAID VIA A SET FEE-SCHEDULE RATHER THAN BEING REIMBURSED BASED ON COSTS (E G OUTPATIENT CLINICAL LABORATORY) FINALLY, THE CHI WORKBOOK ALLOWS A FACILITY TO INCLUDE OTHER HEALTH CARE SERVICES PERFORMED BY A SEPARATE FACILITY (SUCH AS A PHYSICIAN PRACTICE) THAT ARE MAINTAINED ON SEPARATE BOOKS AND RECORDS (AS OPPOSED TO THE MAIN FACILITY'S BOOKS AND RECORDS WHICH HAS ITS COSTS OF SERVICE INCLUDED WITHIN A COST REPORT) TRUE COSTS OF MEDICARE COMPUTED USING THIS METHODOLOGY TOTAL MEDICARE REVENUE $18,995,159 TOTAL MEDICARE COSTS $18,503,833 SURPLUS $491,326 FLAGET HEALTHCARE, INC BELIEVES THAT EXCLUDING MEDICARE LOSSES FROM COMMUNITY BENEFIT MAKES THE OVERALL COMMUNITY BENEFIT REPORT MORE CREDIBLE FOR THESE REASONS UNLIKE SUBSIDIZED AREAS SUCH AS BURN UNITS OR BEHAVIORAL-HEALTH SERVICES, MEDICARE IS NOT A DIFFERENTIATING FEATURE OF TAX-EXEMPT HEALTH CARE ORGANIZATIONS IN FACT, FOR-PROFIT HOSPITALS FOCUS N ATTRACTING PATIENTS WITH MEDICARE COVERAGE, ESPECIALLY IN THE CASE OF WELL-PAID SERVICES THAT INCLUDE CARDIAC AND ORTHOPEDICS SIGNIFICANT EFFORT AND RESOURCES ARE DEVOTED TO ENSURING THAT HOSPITALS ARE REIMBURSED APPROPRIATELY BY THE MEDICARE PROGRAM THE MEDICARE PAYMENT ADVISORY COMMISSION (MEDPAC), AN INDEPENDENT CONGRESSIONAL AGENCY, CAREFULLY STUDIES MEDICARE PAYMENT AND THE ACCESS TO CARE THAT MEDICARE BENEFICIARIES RECEIVE THE COMMISSION RECOMMENDS PAYMENT ADJUSTMENTS TO CONGRESS ACCORDINGLY THOUGH MEDICARE LOSSES ARE NOT INCLUDED BY CATHOLIC HOSPITALS AS COMMUNITY BENEFIT, THE CATHOLIC HEALTH ASSOCIATION GUIDELINES ALLOW HOSPITALS TO COUNT AS COMMUNITY BENEFIT SOME PROGRAMS THAT SPECIFICALLY SERVE THE MEDICARE POPULATION FOR INSTANCE, IF HOSPITALS OPERATE PROGRAMS FOR PATIENTS WITH MEDICARE BENEFITS THAT RESPOND TO IDENTIFIED COMMUNITY NEEDS, GENERATE LOSSES FOR THE HOSPITAL, AND MEET OTHER CRITERIA, THESE PROGRAMS CAN BE INCLUDED IN THE CHA FRAMEWORK IN CATEGORY C AS "SUBSIDIZED HEALTH SERVICES " MEDICARE LOSSES ARE DIFFERENT FROM MEDICAID LOSSES, WHICH ARE COUNTED IN THE CHA COMMUNITY BENEFIT FRAMEWORK, BECAUSE MEDICAID REIMBURSEMENTS GENERALLY DO NOT RECEIVE THE LEVEL OF ATTENTION PAID TO MEDICARE REIMBURSEMENT MEDICAID PAYMENT IS LARGELY DRIVEN BY WHAT STATES CAN AFFORD TO PAY, AND IS TYPICALLY SUBSTANTIALLY LESS THAN WHAT MEDICARE PAYS

Identifier	ReturnReference	Explanation
Collection practices for patients eligible for financial assistance	Schedule H, Part III, Line 9b	FLAGET HEALTHCARE, INC , ALONG WITH ITS AFFILIATED OUTPATIENT FACILITIES ARE PART OF CATHOLIC HEALTH INITIATIVES "CHI" CHI HAS A WRITTEN POLICY (STEWARDSHIP POLICY NO 16) GOVERNING THE PROCEDURES FOR COLLECTIONS OF PAST DUE ACCOUNTS ALL HOSPITAL FACILITIES INCLUDED IN THE FILING ORGANIZATION HAVE ADOPTED THIS POLICY AND FOLLOW THESE PRACTICES WITH REGARDS TO COLLECTIONS PROCEDURES CHI ENTITIES WILL FOLLOW STANDARD PROCEDURES IN COLLECTING SELF-PAY BALANCES AS FOLLOWS PERMISSIBLE COLLECTIONS ACTIVITY EACH FACILITY MUST ADHERE TO THE FOLLOWING REQUIREMENTS IN RELATION TO THE PURSUIT OF SELF-PAY BALANCES * FAIR PURSUIT EACH FACILITY SHALL ENSURE THAT ALL PATIENT AND PATIENT GUARANTOR ACCOUNTS ARE PURSUED FAIRLY * ETHICS AND INTEGRITY EACH FACILITY SHALL ENSURE THAT ALL COLLECTION ACTIVITIES CONSISTENTLY REFLECT THE HIGHEST STANDARDS OF ETHICS AND INTEGRITY * REASONABLE PAYMENT TERMS EACH FACILITY SHALL OFFER REASONABLE PAYMENT SCHEDULES AND TERMS TO EACH PATIENT AND PATIENT GUARANTOR WITH SELF-PAY BALANCES ALL COLLECTION ACTIVITIES CONDUCTED BY THE FACILITY OR ITS THIRD-PARTY COLLECTION AGENTS WILL BE IN CONFORMANCE WITH ALL FEDERAL AND STATE LAWS GOVERNING DEBT COLLECTION PRACTICES COLLECTION ACTIVITY MAY BE IN THE FORM OF LETTERS, EMAILS, PHONE CALLS, AND/OR CREDIT REPORTING AND MAY ALSO INCLUDE WAGE GARNISHMENTS, PLACING OF LIENS ON BUILDINGS OR RESIDENCES OTHER THAN PERSONAL RESIDENCES, INITIATION OF LAWSUIT, AND/OR OTHER ACTIONS AS REQUIRED, EXCEPT AS PROHIBITED BY IMPERMISSIBLE COLLECTIONS ACTIONS BELOW PRE-COLLECTIONS ACTIVITY * TIMING GENERALLY, ACCOUNTS WILL NOT BE REFERRED TO COLLECTIONS UNTIL THEY ARE 120 DAYS OLD HOWEVER, IN CIRCUMSTANCES WHERE INVOICES TO NON-MEDICARE PATIENTS ARE RETURNED UNDELIVERED WITH NO KNOWN ADDRESS, THOSE SELF-PAY BALANCES MAY BE REFERRED TO COLLECTIONS PRIOR TO EXPIRATION OF 120 DAYS * LIMITATIONS - FINANCIAL ASSISTANCE ELIGIBILITY THE FACILITY SHALL PERFORM A REASONABLE REVIEW OF EACH PATIENT ACCOUNT PRIOR TO TURNING AN ACCOUNT OVER TO A THIRD-PARTY COLLECTION AGENT AND PRIOR TO INSTITUTING ANY LEGAL ACTION FOR NON-PAYMENT (INCLUDING, BUT NOT LIMITED TO, REPORTING THE ACCOUNT TO A COLLECTION AGENCY) TO ENSURE THAT THE PATIENT AND PATIENT GUARANTOR ARE NOT ELIGIBLE FOR ANY ASSISTANCE PROGRAM (E G , MEDICAID) AND DO NOT QUALIFY FOR COVERAGE THROUGH THE FACILITY'S FINANCIAL ASSISTANCE POLICY THAT REASONABLE REVIEW WILL INCLUDE ONE OR MORE OF THE FOLLOWING A NOTIFICATION TO PATIENT OF THE AVAILABILITY OF FINANCIAL ASSISTANCE ON ADMISSION, PRIOR TO DISCHARGE, AND/OR IN THE BILLING PROCESS, B REVIEW OF FINANCIAL ASSISTANCE APPLICATION SUBMITTED BY OR ON BEHALF OF THE PATIENT, OR C REVIEW OF THE PATIENT'S ELIGIBILITY USING PATIENT ACCOUNT STATISTICAL SCORING SOFTWARE * COOPERATING EFFORTS NO FACILITY SHALL SEND ANY UNPAID SELF-PAY ACCOUNT TO A THIRD-PARTY COLLECTION AGENT AS LONG AS THE PATIENT AND PATIENT GUARANTOR ARE COOPERATING WITH THE FACILITY IN EFFORTS TO SETTLE THE ACCOUNT BALANCE WITHIN A REASONABLE TIME FRAME (GENERALLY 18 MONTHS) * SUBSEQUENT ASSESSMENT AFTER HAVING BEEN TURNED OVER TO A THIRD-PARTY COLLECTION AGENT, ANY ACCOUNT THAT SUBSEQUENTLY IS DETERMINED TO QUALIFY FOR FINANCIAL ASSISTANCE SHALL BE RETURNED IMMEDIATELY BY THE THIRD-PARTY COLLECTION AGENT TO THE FACILITY FOR APPROPRIATE FOLLOW-UP CHI SHALL DIRECT ITS STAFF AND THIRD-PARTY COLLECTION AGENTS TO CONTINUALLY ASSESS EACH PATIENT AND PATIENT GUARANTOR'S ABILITY TO PAY OR TO BE DETERMINED ELIGIBLE FOR FINANCIAL ASSISTANCE COLLECTIONS THE FACILITY MAY USE A THIRD-PARTY COLLECTION AGENT AS A REPRESENTATIVE, ACTING IN THE NAME OF THE FACILITY AND ENGAGED ON A CONTRACTUAL BASIS, FOR THE EXPRESS PURPOSES OF FOLLOWING-UP ON AND POTENTIALLY COLLECTING ANY PATIENT ACCOUNTS RECEIVABLE BALANCES THE FACILITY SHALL CONTRACTUALLY DEFINE THE STANDARDS AND SCOPE OF PRACTICES TO BE USED BY THIRD-PARTY COLLECTION AGENTS THOSE STANDARDS AND SCOPE OF PRACTICES SHALL BE CONSISTENT WITH THIS POLICY AND SHALL, AT A MINIMUM, INCLUDE THE FOLLOWING * STATEMENT MESSAGE THE FACILITY SHALL REQUIRE ITS THIRD-PARTY COLLECTION AGENTS TO INCLUDE A MESSAGE ON ALL STATEMENTS INDICATING THAT IF A PATIENT OR PATIENT GUARANTOR MEETS CERTAIN STIPULATED INCOME REQUIREMENTS, THE PATIENT OR PATIENT GUARANTOR MAY BE ELIGIBLE FOR FACILITY OR OTHER FINANCIAL ASSISTANCE PROGRAMS * ADVANCE SETTLEMENT APPROVALS THE FACILITY SHALL INSTRUCT ITS THIRD-PARTY COLLECTION AGENTS TO SEEK APPROVAL FROM THE AUTHORIZED AND DESIGNATED FACILITY STAFF MEMBER BEFORE ANY SETTLEMENT, AS A RESULT OF BANKRUPTCY PROCEEDINGS, SHALL BE ACCEPTED * STANDARDS OF CONDUCT THE FACILITY SHALL REQUIRE THAT THE THIRD-PARTY COLLECTION AGENTS CONDUCT THEMSELVES IN COMPLIANCE WITH THE HIGHEST STANDARDS OF BUSINESS ETHICS AND INTEGRITY AND APPLICABLE LEGAL REQUIREMENTS, AS REFLECTED IN THE CHI STANDARDS OF CONDUCT, AS MAY BE AMENDED BY CHI, AVAILABLE AT THE FOLLOWING WEBSITE HTTP //WWW CATHOLICHEALTHINITIATIVES ORG/CORPORATERESPONSIBILITY * PROHIBITED COLLECTIONS ACTIONS THE FACILITY SHALL PROHIBIT THE THIRD-PARTY COLLECTION AGENTS FROM ENGAGING IN PROHIBITED COLLECTIONS ACTIONS AS DEFINED IN IMPERMISSIBLE COLLECTIONS ACTIONS BELOW * ANNUAL ADHERENCE AUDIT THE FACILITY OR ITS DESIGNEE SHALL BE PERMITTED TO AUDIT ITS THIRD-PARTY COLLECTION AGENTS AT LEAST ANNUALLY FOR ADHERENCE TO THESE STANDARDS IMPERMISSIBLE COLLECTIONS ACTIONS CHI ENTITIES SHALL DIRECT THEIR STAFF AND THIRD-PARTY COLLECTION AGENTS THAT THE FOLLOWING ACTIONS ARE ALWAYS PROHIBITED IN RELATION TO THE PURSUIT OF SELF-PAY BALANCES * UNEMPLOYED WITHOUT SIGNIFICANT INCOME/ASSETS NO FACILITY SHALL PURSUE ANY LEGAL ACTION FOR NON-PAYMENT OF ANY BILLS AGAINST ANY PATIENT OR PATIENT GUARANTOR WHO IS KNOWN TO BE UNEMPLOYED AND WHO HAS BEEN DETERMINED IN ACCORDANCE WITH CHI STEWARDSHIP POLICY NO 15, HOSPITAL FINANCIAL ASSISTANCE, ON THE BASIS OF A COMPLETED FINANCIAL ASSISTANCE APPLICATION, TO BE WITHOUT SIGNIFICANT INCOME OR ASSETS * PRINCIPAL RESIDENCE NO FACILITY SHALL PURSUE ANY LEGAL ACTION AGAINST ANY PATIENT OR PATIENT GUARANTOR BY SEEKING A REMEDY THAT WOULD INVOLVE FORECLOSING UPON THE PRINCIPLE RESIDENCE OF A PATIENT OR PATIENT GUARANTOR, PLACING A LIEN ON THE PRINCIPAL RESIDENCE, TAKING ANY OTHER ACTION THAT COULD RESULT IN THE INVOLUNTARY SALE OR TRANSFER OF SUCH RESIDENCE, OR INFORMING ANY PATIENT OR PATIENT GUARANTOR THAT HE/SHE MAY BE SUBJECT TO ANY SUCH ACTION * OTHER IMPERMISSIBLE COLLECTION TACTICS A NO FACILITY SHALL CHARGE INTEREST ON OUTSTANDING BALANCES, B NO FACILITY SHALL REQUIRE PATIENTS OR PATIENT GUARANTORS TO INCUR DEBT OR LOANS WITH RECOURSE TO THE PATIENT'S OR GUARANTOR'S PERSONAL OR REAL PROPERTY ASSETS ("RECOURSE INDEBTEDNESS"), AND C NO FACILITY SHALL INVOKE SO-CALLED "BODY ATTACHMENTS" (I E , THE ARREST OR JAILING OF PATIENTS IN DEFAULT ON THEIR ACCOUNTS, SUCH AS FOR MISSED COURT APPEARANCES) IN ADDITION TO THE WRITTEN POLICY ALL OF CATHOLIC HEALTH INITIATIVES' HOSPITALS' CONTRACTS WITH THIRD PARTY COLLECTION AGENCIES INCLUDE THE FOLLOWING STANDARDS * NEITHER CHI HOSPITALS NOR THEIR COLLECTION AGENCIES WILL REQUEST BENCH OR ARREST WARRANTS AS A RESULT OF NON-PAYMENT, * NEITHER CHI HOSPITALS NOR THEIR COLLECTION AGENCIES WILL SEEK LIENS THAT WOULD REQUIRE THE SALE OR FORECLOSURE OF A PRIMARY RESIDENCE, AND * NO CATHOLIC HEALTH INITIATIVES' COLLECTION AGENCY MAY SEEK COURT ACTION WITHOUT HOSPITAL APPROVAL FINALLY, COLLECTION AGENCIES ARE TRAINED ON THE CATHOLIC HEALTH INITIATIVES MISSION, CORE VALUES AND STANDARD OF CONDUCT TO MAKE SURE ALL PATIENTS ARE TREATED WITH DIGNITY AND RESPECT
Community Served by Needs Assessment	Schedule H, Part V Section B, Line 3	(1) FLAGET MEMORIAL HOSPITAL - - PARTNERED WITH THE LINCOLN TRAIL DISTRICT HEALTH DEPARTMENT, WHICH CONDUCTED SURVEYS OF THE COMMUNITY - HELD TWO COMMUNITY FORUMS - CONDUCTED TWO PHYSICIAN FOCUS GROUPS - CONDUCTED 15 KEY INFORMANT INTERVIEWS - ENGAGED BKD, LLP TO ASSIST WITH COMPILING SECONDARY DATA AND PRIORITIZING IDENTIFIED HEALTH NEEDS,

Identifier	ReturnReference	Explanation
Needs not addressed in Needs Assessment	Schedule H, Part V Section B, Line 7	(1) FLAGET MEMORIAL HOSPITAL - THE HOSPITAL DID NOT ADDRESS ALL THE NEEDS IDENTIFIED IN THE CHNA GIVEN THE HOSPITAL'S RESOURCES AND SCOPE OF EXPERTISE THE METHODICAL PROCESS USED BY THE HOSPITAL TO IDENTIFY COMMUNITY HEALTH NEEDS REVEALED FIFTEEN HEALTH ISSUES, WHICH ARE OUTLINED IN OUR CHNA AMONG THE LIST OF FIFTEEN HEALTH ISSUES, AND IN LIGHT OF THE HOSPITAL'S RESOURCES AND SCOPE OF EXPERTISE, THE HOSPITAL CHOSE TO ADDRESS THREE "PRIORITY" HEALTH NEEDS CANCER, PHYSICAL INACTIVITY/ADULT OBESITY, AND ADULT SMOKING THE HOSPITAL IS COMMITTED TO ADDRESSING THESE NEEDS AS THEY ARE AMONG THE MOST PRESSING ,
Used federal poverty guidelines (FPG) to determine eligibility	Schedule H, Part V Section B, Line 10	(1) FLAGET MEMORIAL HOSPITAL - HUD LOW INCOME GUIDELINES USED ,

Identifier	ReturnReference	Explanation
Used FPG to determine eligibility for providing discounted care criteria	Schedule H, Part V Section B, Line 11	(1) FLAGET MEMORIAL HOSPITAL - HUD LOW INCOME GUIDELINES USED ,
LINES 2, 3, & 5 NEEDS ASSESSMENT AND COMMUNITY INFORMATION	SCHEDULE H, PART VI	ORGANIZATION'S MISSION, VISION & TAX-EXEMPT PURPOSE FLAGET HEALTHCARE, INC ("FHC") WAS OPENED IN 1951 AS A RESULT OF THE DETERMINATION OF THE SISTERS OF CHARITY OF NAZARETH WHO PIONEERED THE DEVELOPMENT OF HEALTH CARE INSTITUTIONS IN KENTUCKY TODAY, IT IS A 52-BED HOSPITAL LOCATED IN BARDSTOWN OFFERING A FULL RANGE OF SERVICES INCLUDING CANCER CARE, ORTHOPEDICS, WOMEN'S CARE, WEIGHT LOSS SURGERY AND OUTPATIENT AND PRIMARY CARE SINCE ITS INCEPTION, FHC HAS BEEN COMMITTED TO SERVING THE POOR AND DISADVANTAGED FLAGET'S COLLABORATIVE EFFORTS WITH THE COMMUNITY WORK TO CREATE HEALTHIER COMMUNITIES FHC IS PART OF KENTUCKYONE HEALTH, THE LARGEST HEALTH SYSTEM IN KENTUCKY WITH MORE THAN 200 LOCATIONS INCLUDING HOSPITALS, OUTPATIENT FACILITIES AND PHYSICIAN OFFICES, AND MORE THAN 3,100 LICENSED BEDS AN 18-MEMBER VOLUNTEER BOARD OF DIRECTORS GOVERNS KENTUCKYONE HEALTH, ITS FACILITIES AND OPERATIONS, WITH THIS MISSION WE BRING HOPE, IMPROVE HEALTH AND CHANGE LIVES INSPIRED BY OUR CATHOLIC AND JEWISH FAITH HERITAGE, WE - SERVE WITH A SPIRIT OF INNOVATION AND COLLABORATION - TRANSFORM HEALTH CARE DELIVERY - PARTNER TO CREATE HEALTHY COMMUNITIES - ADVOCATE FOR A JUST HEALTH SYSTEM FHC OPERATES A 24-HOUR EMERGENCY ROOM 365 DAYS PER YEAR THAT EMERGENCY ROOM IS OPEN TO ALL INDIVIDUALS REGARDLESS OF ABILITY TO PAY FHC HAS AN OPEN MEDICAL STAFF, PARTICIPATES IN MEDICARE AND MEDICAID, AND HAS AN ACTIVE CHARITY CARE PROGRAM FHC IS INCLUDED IN THE OFFICIAL CATHOLIC DIRECTORY AS A TAX-EXEMPT HOSPITAL COMMUNITY BENEFIT APPROACH LOCATED IN BARDSTOWN, KENTUCKY, FHC SERVES THOSE FROM NELSON, WASHINGTON, SPENCER, BULLITT AND LARUE COUNTIES HOWEVER, 75 5% OF THE HOSPITAL'S DISCHARGES IN 2011 WERE RESIDENTS OF NELSON COUNTY ACCORDING TO THE 2010 U S CENSUS BUREAU, THE MEDIAN HOUSEHOLD INCOME IS $45,149, JUST ABOVE THE STATE'S MEDIAN INCOME OF $42,248, BUT BELOW THE NATION'S INCOME OF $52,762 THE U S CENSUS BUREAU ALSO REPORTS THAT 14 9% OF THE RESIDENTS OF NELSON COUNTY LIVE BELOW THE POVERTY LEVEL, COMPARABLE TO THE NATIONAL AVERAGE OF 14 3% IN ADDITION, 16 0% OF NELSON COUNTY'S CHILDREN LIVE IN POVERTY THE RACE/ETHNICITY OF NELSON COUNTY IS 92 8% WHITE NON-HISPANIC THE UNEMPLOYMENT RATE IN NELSON COUNTY IN 2012 WAS 8 7%, ABOVE THE STATE'S AVERAGE OF 8 2% COMMUNITY OUTREACH FOR THE POOR PRESCRIPTION ASSISTANCE PROGRAM FHC HAS A DEDICATED EMPLOYEE WHO COORDINATES THE PRESCRIPTION ASSISTANCE PROGRAM, WHICH SERVES PEOPLE WHO OTHERWISE COULD NOT AFFORD TO PAY FOR THEIR PRESCRIPTION MEDICATIONS BY UTILIZING THE ASSISTANCE OPTIONS THROUGH PHARMACEUTICAL COMPANIES, THE PROGRAM IS ABLE TO ENSURE PATIENTS GET THE MEDICATIONS THEY NEED AT NO COST THIS ENABLES THE PATIENTS TO BETTER MANAGE THEIR HEALTH AND AVOIDS UNNECESSARY UTILIZATION OF HIGH COST EMERGENCY DEPARTMENT SERVICES NELSON COUNTY COMMUNITY CLINIC THE NELSON COUNTY COMMUNITY CLINIC (NCCC) IS A VITAL SAFETY NET FOR NELSON COUNTY RESIDENTS WHO ARE EMPLOYED BUT HAVE NO HEALTH INSURANCE INCOME-ELIGIBLE RESIDENTS HAVE ACCESS TO AN ARRAY OF FREE SERVICES, INCLUDING MEDICAL CARE, BASIC DENTAL CARE, LAB TESTS, EYE EXAMS AND FREE MEDICATIONS HALF OF THE APPROXIMATELY 110 VOLUNTEERS, WHO STAFF THE CLINIC, ARE FHC EMPLOYEES THE CLINIC WAS STARTED IN 2006 WITH A $278,000 GRANT FROM FHC'S SPONSOR ORGANIZATION, CATHOLIC HEALTH INITIATIVES FLHC DONATED $10,000 TO THE NCCC IN FY 2013 DONATION OF SUPPLIES & EQUIPMENT FHC PARTNERS WITH SUPPLIES OVER SEAS (SOS), WHICH OFFERS AN ENVIRONMENTALLY-FRIENDLY AND COST-EFFECTIVE WAY OF DEALING WITH SURPLUS MEDICAL PRODUCTS WHILE SIMULTANEOUSLY HELPING PEOPLE IN DESPERATE NEED SOS RELIES ON THESE PRODUCT DONATIONS TO SUPPLY THEIR QUALIFIED RECIPIENT INSTITUTIONS IN THE ECONOMICALLY DEVELOPING WORLD WITH A WIDE VARIETY OF EQUIPMENT AND SUPPLIES

Identifier	ReturnReference	Explanation
LINES 2, 3, & 5 NEEDS ASSESSMENT AND COMMUNITY INFORMATION	SCHEDULE H, PART VI	COMMUNITY OUTREACH FOR THE BROADER COMMUNITY CANCER CENTER FREE SCREENINGS THE FHC CANCER CENTER OFFERS STATE-OF-THE-ART RADIATION AND MEDICAL ONCOLOGY FROM PROFESSIONAL, COMPASSIONATE PHYSICIANS AND A FULL SUPPORT TEAM THROUGH PARTNERS SUCH AS THE SUSAN G KOMEN FOUNDATION, THE CANCER CENTER OFFERS A VARIETY OF FREE AND/OR REDUCED-COST SCREENINGS THROUGHOUT THE YEAR TO PROMOTE COMMUNITY EDUCATION, EARLY DETECTION AND TREATMENT OF LUNG, COLON, BREAST, SKIN, AND OTHER TYPES OF CANCERS COMMUNITY OUTREACH FOR THE BROADER COMMUNITY KENTUCKY BOURBON FESTIVAL (FIRST AID) FHC EMPLOYEES STAFF THE FIRST AID STATION AT THE ANNUAL "KENTUCKY BOURBON FESTIVAL", WHICH OCCURS IN THE FALL THE FESTIVAL DRAWS OVER 50,000 COMMUNITY HEALTH AND WELLNESS FAIR(S) FHC'S HEALTH AND WELLNESS FAIR BROUGHT TOGETHER 39 COMMUNITY HEALTH ORGANIZATIONS AND SERVED OVER 400 PEOPLE THE HOSPITAL HAD OVER 20 PROGRAMS REPRESENTED AT THE FAIR SCREENINGS WERE OFFERED SUCH AS BLOOD PRESSURE, CHOLESTEROL, BLOOD SUGAR, EYE AND DENTAL, AS WERE SPINAL ASSESSMENTS AND BMI CALCULATIONS FHC ALSO PARTICIPATES IN OTHER HEALTH FAIRS OFFERED THROUGHOUT NELSON AND CONTIGUOUS COUNTIES OFFERING COMMUNITY EDUCATION AND SELECT SCREENINGS BABY FAIR THE ANNUAL BABY FAIR IS ORGANIZED BY FHC EMPLOYEES WITH THE SUPPORT OF LOCAL COMMUNITY PARTNERS THE PROGRAM IS DESIGNED TO EMPOWER MOTHERS WITH THE KNOWLEDGE AND RESOURCES THEY NEED IN THE CARE OF THEIR NEWBORNS, INFANTS AND TODDLERS THE FAIR INCLUDED EDUCATIONAL OPPORTUNITIES ON TOPICS SUCH AS BREASTFEEDING, EPIDURALS, POST-PARTUM BLUES, CHILDBIRTH WITH CONFIDENCE, AND KANGAROO CARE EDUCATION OF MEDICAL/PARAMEDICAL PROFESSIONALS FHC PROVIDES A CLINICAL SITE FOR HEALTH CARE PROFESSIONALS, INCLUDING STUDENTS PURSUING CAREERS IN NURSING, SURGICAL AND IMAGING SERVICES COLLABORATIVE EFFORTS TO IMPROVE COMMUNITY HEALTH FHC PARTNERS WITH THE FOLLOWING ORGANIZATIONS IN A COLLABORATIVE EFFORT TO IMPROVE THE HEALTH OF OUR COMMUNITIES LINCOLN TRAIL DISTRICT HEALTH DEPARTMENT, LOCAL PARISHES/CHURCHES AND THE BARDSTOWN/NELSON COUNTY MINISTERIAL ASSOCIATION, NELSON COUNTY MENTAL HEALTH COALITION, BARDSTOWN CHAMBER OF COMMERCE, ST VINCENT DE PAUL SOCIETY, AMERICAN HEART ASSOCIATION, AMERICAN CANCER SOCIETY, COMMUNITY ACTION AND MARCH OF DIMES FHC'S "GO RED FOR WOMEN" CAMPAIGN THROUGH THE AMERICAN HEART ASSOCIATION INCLUDED A PRESENTATION FROM DR MARK ABRAMOVICH ON THE TOPICS OF CARDIAC HEALTH, WEIGHT CONTROL, GENETICS AND HYPERLIPIDEMIA THE HOSPITAL DONATED $5,000 TO THE AMERICAN HEART ASSOCIATION IN SUPPORT OF THE AMERICAN CANCER SOCIETY'S "RELAY FOR LIFE" EVENT, FHC DONATED $5,500 FHC WAS ALSO THE LEADING SPONSOR IN THE MARCH FOR DIMES "MARCH FOR BABIES" EVENT DONATING MORE THAN $6,500
Patient education of eligibility for assistance	Schedule H, Part VI, Line 3	FLAGET HEALTHCARE, INC , ALONG WITH ITS AFFILIATED OUTPATIENT FACILITIES ARE PART OF CATHOLIC HEALTH INITIATIVES "CHI" CHI HAS A WRITTEN POLICY (STEWARDSHIP POLICY NO 15) GOVERNING THE PROCEDURES FOR DETERMINING AND INFORMING PATIENTS ABOUT THE ENTITY'S FINANCIAL ASSISTANCE POLICY ALL HOSPITAL FACILITIES INCLUDED IN THE FILING ORGANIZATION HAVE ADOPTED THE POLICY THE POLICY STATES THE ORGANIZATION WILL INCLUDE INFORMATION CONCERNING ITS FINANCIAL ASSISTANCE POLICY ON ITS WEBSITE IN ADDITION, FLAGET HEALTHCARE, INC PROMINENTLY DISPLAYS ITS FINANCIAL ASSISTANCE POLICY IN BOTH ENGLISH AND SPANISH IN OBVIOUS LOCATIONS THROUGHOUT THE HOSPITALS, INCLUDING THE EMERGENCY ROOMS AND OTHER PATIENT INTAKE AREAS, AS WELL AS IN FLAGET HEALTHCARE, INC OUTPATIENT FACILITIES IN ADDITION, FLAGET HEALTHCARE, INC REGISTRATION CLERKS ARE TRAINED TO PROVIDE CONSULTATION TO THOSE WHO HAVE NO INSURANCE OR POTENTIALLY INADEQUATE INSURANCE CONCERNING THEIR FINANCIAL OPTIONS INCLUDING APPLICATION FOR MEDICAID AND FOR FINANCIAL ASSISTANCE UNDER FLAGET HEALTHCARE, INC 'S FINANCIAL ASSISTANCE POLICY UPON REGISTRATION (AND ONCE ALL EMTALA REQUIREMENTS ARE MET), PATIENTS WHO ARE IDENTIFIED AS UNINSURED (AND NOT COVERED BY MEDICARE OR MEDICAID) ARE PROVIDED WITH A PACKET OF INFORMATION THAT ADDRESSES THE FINANCIAL ASSISTANCE POLICY AND PROCEDURES INCLUDING AN APPLICATION FOR ASSISTANCE FLAGET HEALTHCARE, INC REGISTRATION CLERKS READ THE ORGANIZATION'S MEDICAL ASSISTANCE POLICY TO THOSE WHO APPEAR TO BE INCAPABLE OF READING, AND PROVIDE TRANSLATORS FOR NON ENGLISH-SPEAKING INDIVIDUALS FLAGET HEALTHCARE, INC 'S STAFF WILL ALSO ASSIST THE PATIENT/GUARANTOR WITH APPLYING FOR OTHER AVAILABLE COVERAGE (SUCH AS MEDICAID), IF NECESSARY COUNSELORS ASSIST MEDICARE ELIGIBLE PATIENTS IN ENROLLMENT BY PROVIDING REFERRALS TO THE APPROPRIATE GOVERNMENT AGENCIES

Identifier	ReturnReference	Explanation
Affiliated health care system	Schedule H, Part VI, Line 6	FLAGET HEALTHCARE, INC , ALONG WITH ITS AFFILIATED OUTPATIENT FACILITIES ARE PART OF CATHOLIC HEALTH INITIATIVES CATHOLIC HEALTH INITIATIVES (CHI) IS A NATIONAL FAITH-BASED NONPROFIT HEALTH CARE ORGANIZATION WITH HEADQUARTERS IN ENGLEWOOD, COLORADO CHI'S EXEMPT PURPOSE IS TO SERVE AS AN INTEGRAL PART OF ITS NATIONAL SYSTEM OF HOSPITALS AND OTHER CHARITABLE ENTITIES, WHICH ARE DESCRIBED AS MARKET-BASED ORGANIZATIONS, OR MBOS AN MBO IS A DIRECT PROVIDER OF CARE OR SERVICES WITHIN A DEFINED MARKET AREA THAT MAY BE AN INTEGRATED HEALTH SYSTEM AND/OR A STAND-ALONE HOSPITAL OR OTHER FACILITY OR SERVICE PROVIDER CHI SERVES AS THE PARENT CORPORATION OF ITS MBOS WHICH ARE COMPRISED OF 73 HOSPITALS, 40 LONG-TERM CARE, ASSISTED- AND RESIDENTIAL-LIVING FACILITIES, TWO COMMUNITY HEALTH-SERVICES ORGANIZATIONS, TWO ACCREDITED NURSING COLLEGES, AND HOME HEALTH AGENCIES TOGETHER, THESE FACILITIES PROVIDED $762 MILLION IN CHARITY CARE AND COMMUNITY BENEFIT IN THE 2013 FISCAL YEAR, INCLUDING SERVICES FOR THE POOR, FREE CLINICS, EDUCATION AND RESEARCH CHI PROVIDES STRATEGIC PLANNING AND MANAGEMENT SERVICES AS WELL AS CENTRALIZED "SHARED SERVICES" FOR THE MBOS THE PROVISION OF CENTRALIZED MANAGEMENT AND SHARED SERVICES - INCLUDING AREAS SUCH AS ACCOUNTING, HUMAN RESOURCES, PAYROLL AND SUPPLY CHAIN -- PROVIDES ECONOMIES OF SCALE AND PURCHASING POWER TO THE MBOS THE COST SAVINGS ACHIEVED THROUGH CHI'S CENTRALIZATION ENABLE MBOS TO DEDICATE ADDITIONAL RESOURCES TO HIGH-QUALITY HEALTH CARE AND COMMUNITY OUTREACH SERVICES TO THE MOST VULNERABLE MEMBERS OF OUR SOCIETY FLAGET HEALTHCARE, INC OPERATES WITH ITS WHOLLY OWNED AFFILIATES AND COMMUNITY PARTNERS, ALONG WITH ITS FUNDRAISING ARM, THE FLAGET MEMORIAL HOSPITAL FOUNDATION, TO SERVE THE HEALTH CARE NEEDS OF THE BARDSTOWN, KENTUCKY COMMUNITIES
State filing of community benefit report	Schedule H, Part VI, Line 7	KY

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Schedule I (Form 990)

Department of the Treasury
Internal Revenue Service

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

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

▶ **Attach to Form 990**

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
FLAGET HEALTHCARE INC

Employer identification number
61-1345363

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
(1) AMERICAN CANCER SOCIETY 1100 IRELAND WAY SUITE 300 BIRMINGHAM,AL 35205	64-0329009	501(C)(3)	6,500				RELAY FOR LIFE SPONSOR
(2) NELSON CO COMMUNITY CLINIC 138 ROBIN DRIVE BARDSTOWN,KY 40004	20-4876401	501(C)(3)	10,000				DINNER WITH AUCTION, 5K

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

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

Part III **Grants and Other Assistance to Individuals in the United States.** Complete if the organization answered "Yes" to Form 990, Part IV, line 22. 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

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
Procedures for monitoring use of grant funds	Schedule I, Part I, Line 2	THE ORGANIZATION ONLY MADE GRANTS TO 501(C)(3) ORGANIZATIONS UPON PROVIDING SATISFACTORY WRITTEN EVIDENCE THAT THE FUNDS WERE USED FOR THE PUPOSE THE GRANT WAS MADE, THE HOSPITAL RELEASES THE RESTRICTION AND THE FUNDS ARE TRANSFERRED

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Schedule J (Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

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

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

▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
FLAGET HEALTHCARE INC

Employer identification number
61-1345363

Part I Questions Regarding Compensation

			Yes	No
1a	Check the appropiate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items ☐ First-class or charter travel ☐ Housing allowance or residence for personal use ☐ Travel for companions ☐ Payments for business use of personal residence ☐ Tax idemnification and gross-up payments ☐ Health or social club dues or initiation fees ☐ Discretionary spending account ☐ Personal services (e g , maid, chauffeur, chef)			
b	If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement 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**	Yes	
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	**4b**	Yes	
c	Participate in, or receive payment from, an equity-based compensation arrangement?	**4c**		No
	If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III			
	Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.			
5	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of			
a	The organization?	**5a**		No
b	Any related organization?	**5b**		No
	If "Yes," to line 5a or 5b, describe in Part III			
6	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of			
a	The organization?	**6a**		No
b	Any related organization?	**6b**		No
	If "Yes," to line 6a or 6b, describe in Part III			
7	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III	**7**		No
8	Were any amounts reported in Form 990, Part VII, paid or accured 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
COMPENSATION OF TOP MANAGEMENT OFFICIAL	SCHEDULE J, PART I, LINE 3	THE ORGANIZATION USED THE FOLLOWING TO ESTABLISH THE TOP MANAGEMENT OFFICIAL'S COMPENSATION (1) INDEPENDENT COMPENSATION CONSULTANT AND (2) APPROVAL BY THE BOARD OR COMPENSATION COMMITTEE
Severance or change-of-control payment	Schedule J, Part I, Line 4a	POST-TERMINATION PAYMENTS ARE ADDRESSED IN EXECUTIVE EMPLOYMENT AGREEMENTS FOR CATHOLIC HEALTH INITIATIVES ("CHI") AND RELATED ORGANIZATIONS' EMPLOYEES AT THE LEVEL OF VICE PRESIDENT AND ABOVE, INCLUDING THE MBO CEOS THESE EMPLOYMENT AGREEMENTS REQUIRE THAT IN ORDER FOR THE EXECUTIVE TO RECEIVE POST-TERMINATION PAYMENTS, THESE INDIVIDUALS MUST EXECUTE A GENERAL RELEASE AND SETTLEMENT AGREEMENT POST-TERMINATION PAYMENT ARRANGEMENTS ARE PERIODICALLY REVIEWED FOR OVERALL REASONABLENESS IN LIGHT OF THE EXECUTIVE'S OVERALL COMPENSATION PACKAGE THE FOLLOWING REPORTABLE INDIVIDUALS RECEIVED SEVERANCE PAYMENTS FROM CATHOLIC HEALTH INITIATIVES (A RELATED ORGANIZATION) DURING THE 2012 CALENDAR YEAR, AND THESE SEVERANCE PAYMENTS WERE INCLUDED IN THE INDIVIDUAL'S W-2 INCOME AND REPORTABLE COMPENSATION ON SCHEDULE J GARY ERMERS $152,350
Supplemental nonqualified retirement plan	Schedule J, Part I, Line 4b	DURING THE 2012 CALENDAR YEAR, CATHOLIC HEALTH INITIATIVES ("CHI"), A RELATED ORGANIZATION, MAINTAINED A SUPPLEMENTAL NON-QUALIFIED DEFERRED COMPENSATION PLAN FOR MBO CEOS AND OTHER CHI EMPLOYEES AT THE LEVEL OF SENIOR VICE PRESIDENT AND ABOVE THE FOLLOWING REPORTABLE INDIVIDUALS WERE ELIGIBLE TO PARTICIPATE IN THAT PLAN PAUL EDGETT, GARY ERMERS, MICHAEL ROWAN, BRUCE KLOCKARS, BEVERLY DOWNS, RUTH WILLIAMS-BRINKLEY, MELVIN ALEXANDER, BEVERLY WEBER DURING 2012, THE FOLLOWING CONTRIBUTIONS WERE MADE BY CHI TO THE DEFERRED COMPENSATION PLAN PAUL EDGETT - $36,619, GARY ERMERS - $20,102, MICHAEL ROWAN - $177,916, BEVERLY DOWNS - $17,441, RUTH WILLIAMS-BRINKLEY - $103,125, MELVIN ALEXANDER - $3,825 DURING 2012, THE FOLLOWING DISTRIBUTIONS WERE MADE BY CHI FROM THE DEFERRED COMPENSATION PLAN PAUL EDGETT - $57,444, GARY ERMERS - $32,217, MICHAEL ROWAN - $150,422 DUE TO THE "SUPER" VESTING RULES UNDER THE CHI DEFERRED COMPENSATION PLAN, PARTICIPANTS WHO HAVE MET CERTAIN REQUIREMENTS SUCH AS TERMINATION, AGE, OR YEARS OF SERVICE ARE ELIGIBLE TO RECEIVE THEIR 2012 CONTRIBUTIONS IN CASH THESE CASH PAYOUTS ARE INCLUDED IN THE PARTICIPANT'S REPORTABLE COMPENSATION IN COLUMN (III) OTHER REPORTABLE COMPENSATION ON SCHEDULE J PART II DURING 2012, THE FOLLOWING CONTRIBUTIONS THAT WOULD HAVE BEEN MADE BY CHI TO THE DEFERRED COMPENSATION PLAN WERE PAID IN CASH BRUCE KLOCKARS - $38,453 DURING THE 2012 CALENDAR YEAR JEWISH HOSPITAL AND ST MARY'S HEALTHCARE ("JHSMH"), A RELATED ORGANIZATION, MAINTAINED A SUPPLEMENTAL NON-QUALIFIED DEFERRED COMPENSATION PLAN FOR EMPLOYEES AT THE LEVEL OF VICE PRESIDENT AND ABOVE THE FOLLOWING REPORTABLE INDIVIDUALS WERE ELIGIBLE TO PARTICIPATE IN THAT PLAN RONDAL FARR DURING 2012 THE FOLLOWING CONTRIBUTIONS WERE MADE BY JHSMH TO THE DEFERRED COMPENSATION PLAN RONALD FARR - $75,000 DURING 2012 THE DEFERRED COMPENSATION PLANS FULLY VESTED AND WERE INCLUDED AS COMPENSATION IN THE 2012 FORM W-2 FOR THE FOLLOWING INDIVIDUALS THE AMOUNTS REPORTED BELOW ARE THE AMOUNTS INCLUDED IN 2012 INCOME AND NOT NECESSARILY THE AMOUNT DISTRIBUTED DURING 2012 FROM THE COMPENSATION PLAN RONALD FARR - $364,263

Additional Data

Return to Form

Software ID: 12000266
Software Version: v2012.1.0
EIN: 61-1345363
Name: FLAGET HEALTHCARE INC

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

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base Compensation	(ii) Bonus & incentive compensation	(iii) Other compensation				
BEVERLY DOWNS	(I)	192,224	23,618	12,035	41,420	13,532	282,829	0
	(II)	0	0	0	0	0	0	0
BRUCE KLOCKARS	(I)	0	0	0	0	0	0	0
	(II)	431,476	61,455	71,784	30,596	14,053	609,364	0
DEBORAH COWLES	(I)	1,907	0	0	12,910	0	14,817	0
	(II)	85,993	12,493	43,329	0	6,494	148,309	0
GARY ERMERS	(I)	0	0	0	0	0	0	0
	(II)	248,822	38,290	272,704	48,198	20,439	628,453	32,217
JENNIFER CLARK	(I)	146,122	0	282	10,804	19,146	176,354	0
	(II)	0	0	0	0	0	0	0
JOHN BRADFORD	(I)	153,768	16,071	657	18,186	17,748	206,430	0
	(II)	0	0	0	0	0	0	0
MICHAEL ROWAN FACHE	(I)	0	0	0	0	0	0	0
	(II)	1,010,071	468,458	173,838	201,012	19,541	1,872,920	150,422
MICHELLE MATTINGLY	(I)	137,536	7,328	179	13,826	11,742	170,611	0
	(II)	0	0	0	0	0	0	0
MONTE MARTIN MD	(I)	443,938	68,788	865	20,596	19,919	554,106	0
	(II)	0	0	0	0	0	0	0
PAUL EDGETT	(I)	0	0	0	0	0	0	0
	(II)	440,982	214,258	79,137	64,715	21,785	820,877	57,444
RAZA MALIK MD	(I)	142,784	0	477	14,408	19,661	177,330	0
	(II)	8,061	0	0	0	0	8,061	0
RON FARR	(I)	0	0	0	0	0	0	0
	(II)	437,424	5,000	360,090	108,055	7,699	918,268	289,263
RUTH WILLIAMS BRINKLEY	(I)	0	0	0	0	0	0	0
	(II)	816,304	90,508	87,605	126,221	7,975	1,128,613	0
SHARON HAGER	(I)	0	0	0	0	0	0	0
	(II)	289,225	73,384	20,465	23,096	8,915	415,085	0

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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
FLAGET HEALTHCARE INC

Employer identification number
61-1345363

Identifier	Return Reference	Explanation
Significant changes in program services	Form 990, Part III, Line 3	DURING THE FISCAL YEAR ENDING JUNE, 30 2013, FLAGET HEALTHCARE, INC TRANSFERRED THEIR HOSPICE DIVISIONS TO SAINT JOSEPH-ANC HOME CARE SERVICES, LLC, A RELATED FOR-PROFIT ORGANIZATION THE CONSOLIDATION OF THE HOSPICE OPERATION WILL BETTER SERVE THE COMMUNITY'S HOSPICE NEEDS BY REDUCING VARIATIONS IN CLINICAL OUTCOMES, LOWERING THE COST OF ADMINISTRATIVE AND BACK OFFICE SERVICES, ENHANCING GROWTH THROUGH THE STANDARDIZED MARKETING PROGRAM, AND IMPROVING OVERALL CORPORATE COMPLIANCE THROUGH STANDARDIZATION AND REVIEW

Identifier	Return Reference	Explanation
Delegate broad authority to a committee	Form 990, Part VI, Section A, Line 1a	PURSUANT TO SECTION 7 1 OF THE BYLAWS OF FLAGET HEALTHCARE, INC , THE BOARD OF DIRECTORS MAY, BY RESOLUTION ADOPTED BY A MAJORITY OF THE DIRECTORS THEN IN OFFICE, ESTABLISH ONE OR MORE COMMITTEES, AS NEEDED OR REQUIRED TO CONDUCT AND TRANSACT THE BUSINESS OF THE CORPORATION EXCEPT AS OTHERWISE PROVIDED IN THESE BYLAWS, THE BOARD OF DIRECTORS MAY SET THE QUALIFICATIONS FOR MEMBERSHIP ON ANY COMMITTEE IT MAY ESTABLISH, PROVIDED THAT EACH COMMITTEE SHALL CONSIST OF AT LEAST TWO (2) DIRECTORS OF THE CORPORATION COMMITTEES MAY INCLUDE PERSONS OTHER THAN DIRECTORS, EXCEPT THAT A COMMITTEE THAT HAS THE AUTHORITY TO ACT ON BEHALF OF THE BOARD OF DIRECTORS MUST INCLUDE ONLY DIRECTORS OF THE CORPORATION MINUTES OF ALL COMMITTEE MEETINGS SHALL BE RECORDED AND COPIES OF SUCH MINUTES SHALL BE PROVIDED TO THE BOARD OF DIRECTORS ACTIONS OF COMMITTEES SHALL BE REPORTED TO THE FULL BOARD OF DIRECTORS, BUT ACTIONS OF COMMITTEES WHICH INCLUDE PERSONS OTHER THAN DIRECTORS SHALL BE SUBJECT TO RATIFICATION BY THE FULL BOARD OF DIRECTORS

Identifier	Return Reference	Explanation
Classes of members or stockholders	Form 990, Part VI, Section A, Line 6	THE SOLE MEMBER OF THE ORGANIZATION IS KENTUCKYONE HEALTH INC , A KENTUCKY NONPROFIT CORPORATION

Identifier	Return Reference	Explanation
Members or stockholders electing members of governing body	Form 990, Part VI, Section A, Line 7a	ACCORDING TO THE ORGANIZATION'S BYLAWS, DIRECTORS SHALL BE APPOINTED OR REFUSED BY THE CORPORATE MEMBER THE CORPORATE MEMBER MAY APPOINT ONE OR MORE INDIVIDUALS TO THE BOARD OF DIRECTORS, AND MAY AT ANY TIME REMOVE, WITH OR WITHOUT CAUSE, ANY MEMBER OF THE BOARD OF DIRECTORS ACCORDING TO THE ORGANIZATION'S BYLAWS, DIRECTORS OF THE CORPORATION SHALL BE APPOINTED BY THE CORPORATE MEMBER NO LATER THAN JUNE 30 OF EACH YEAR THE NAMES AND QUALIFICATIONS OF EACH INDIVIDUAL ACCEPTED BY THE BOARD OF DIRECTORS SHALL BE SUBMITTED TO THE CORPORATE MEMBER, WHO SHALL APPOINT OR REFUSE EACH NOMINEE IN ACCORDANCE WITH THE CORPORATE MEMBER'S BYLAWS THE CORPORATE MEMBER MAY UNILATERALLY APPOINT ONE OR MORE INDIVIDUALS TO THE BOARD OF DIRECTORS SHOULD THE BOARD FAIL TO FURNISH THE CORPORATE MEMBER WITH A LIST OF INDIVIDUALS QUALIFIED TO SERVE ON THE BOARD OF DIRECTORS OF THE CORPORATION

Identifier	Return Reference	Explanation
Decisions requiring approval by members or stockholders	Form 990, Part VI, Section A, Line 7b	FLAGET HEALTHCARE, INC'S CORPORATE MEMBER IS KENTUCKYONE HEALTH, INC PURSUANT TO SECTION 4 4 1 OF THE ORGANIZATION'S BYLAWS, NEITHER THE BOARD NOR ANY OFFICER OR EMPLOYEE OF THE CORPORATION NOR ANY SUBSIDIARY OR AFFILIATE OF THE CORPORATION SHALL TAKE ANY ACTION EITHER IN CONTRADICTION OF ANY OF THE FOREGOING POWERS, OR WITHOUT FIRST HAVING SECURED THE NECESSARY APPROVALS OR GIVEN THE APPROPRIATE NOTIFICATIONS AS MAY BE REQUIRED BY THESE BYLAWS IN ADDITION, PURSUANT TO SECTION 4 4 2 OF THE ORGANIZATION'S BYLAWS, IN EXERCISE OF ITS APPROVAL POWERS, THE CORPORATE MEMBER MAY GRANT OR WITHHOLD APPROVAL IN WHOLE OR IN PART, OR MAY, IN ITS COMPLETE DISCRETION, AFTER CONSULTATION WITH THE BOARD AND THE PRESIDENT OF THE CORPORATION, RECOMMEND SUCH OTHER OR DIFFERENT ACTIONS AS IT DEEMS APPROPRIATE.

Identifier	Return Reference	Explanation
Review of form 990 by governing body	Form 990, Part VI, Section B, Line 11b	ONCE THE RETURN IS PREPARED, THE RETURN IS REVIEWED BY THE INTERIM CFO AND AN ELECTRONIC COPY IS PROVIDED TO EACH MEMBER OF THE BOARD AFTER THE RETURN IS REVIEWED BY THE INTERIM CFO, THE TAX DEPARTMENT FILES THE RETURN WITH THE APPROPRIATE FEDERAL AND STATE AGENCIES, MAKING ANY NONSUBSTANTIVE CHANGES NECESSARY THAT EFFECT E-FILING ANY SUCH CHANGES ARE NOT RESUBMITTED TO THE BOARD SUBSEQUENT TO THE RETURN BEING FILED, THE PRESIDENT/CEO OF KENTUCKY ONE HEALTH, INC , THE SOLE MEMBER OF THE ORGANIZATION, PRESENTS THE RETURN AT A FLAGET HEALTHCARE, INC BOARD MEETING

Identifier	Return Reference	Explanation
Conflict of interest policy	Form 990, Part VI, Section B, Line 12c	CONFLICT OF INTEREST STATEMENTS ARE REVIEWED BY THE FACILITY PRESIDENT AND THEN PRESENTED TO THE BOARD CHAIR FOR DIRECTORS AND BOARD MEMBERS THE PROCESS OF RESOLVING POTENTIAL CONFLICTS BEGINS WHEN THE PRESIDENT PRESENTS THE INFORMATION TO THE BOARD CHAIR THE BOARD CHAIR FURTHER INVESTIGATES AND REPORTS TO THE EXECUTIVE COMMITTEE OF THE BOARD FOR FINAL DETERMINATION FOR EMPLOYEES, CONFLICT DISCLOSURE STATEMENTS ARE REVIEWED BY HUMAN RESOURCES AND THE PRESIDENT IF THERE ARE POTENTIAL CONFLICTS

Identifier	Return Reference	Explanation
Process used to establish compensation of top management official	Form 990, Part VI, Section B, Line 15a	THE TOP MANAGEMENT OFFICIAL'S COMPENSATION IS PAID BY THE ORGANIZATION EXECUTIVE LEADERSHIP COMPENSATION IS REVIEWED BY THE EXECUTIVE COMMITTEE TO THE BOARD AN OUTSIDE CONSULTANT PROVIDED COMPARATIVE DATA BASED ON BASE COMPENSATION, TOTAL COMPENSATION, AND EXECUTIVE BENEFITS

Identifier	Return Reference	Explanation
Process used to establish compensation of other officers/key employees	Form 990, Part VI, Section B, Line 15b	COMPENSATION OF OFFICERS OR KEY EMPLOYEES OF THE ORGANIZATION'S EXECUTIVE LEADERSHIP COMPENSATION IS REVIEWED BY THE EXECUTIVE COMMITTEE TO THE BOARD AN OUTSIDE CONSULTANT PROVIDED COMPARATIVE DATA BASED ON BASE COMPENSATION, TOTAL COMPENSATION, AND EXECUTIVE BENEFITS PHYSICIAN COMPENSATION IS REVIEWED AND APPROVED BY PLC, MANAGEMENT PTRC, BOARD PTRC, AND ULTIMATELY THE FULL BOARD

Identifier	Return Reference	Explanation
Governing documents, conflict of interest policy and financial statements available to the public	Form 990, Part VI, Section C, Line 19	THE ORGANIZATION'S FINANCIAL STATEMENTS, CONFLICT OF INTEREST POLICY AND GOVERNING DOCUMENTS ARE AVAILABLE TO THE PUBLIC UPON REQUEST THE ORGANIZATION'S FINANCIAL STATEMENTS ARE INCLUDED IN CATHOLIC HEALTH INITIATIVES' CONSOLIDATED AUDITED FINANCIAL STATEMENTS THAT ARE AVAILABLE AT WWW CATHOLICHEALTHINIT ORG OR AT WWW DACBOND ORG

Identifier	Return Reference	Explanation
Other Expenses	Form 990, Part IX, Line 11g	CONTRACT LABOR - TOTAL EXPENSE 3240379, PROGRAM SERVICE EXPENSE 3202521, MANAGEMENT AND GENERAL EXPENSES 37858, FUNDRAISING EXPENSES , CONTRACT SERVICES - TOTAL EXPENSE 5791794, PROGRAM SERVICE EXPENSE 3789149, MANAGEMENT AND GENERAL EXPENSES 2002645, FUNDRAISING EXPENSES , PURCHASED SERVICES - TOTAL EXPENSE 190255, PROGRAM SERVICE EXPENSE 151606, MANAGEMENT AND GENERAL EXPENSES 38649, FUNDRAISING EXPENSES , MEDICAL DIRECTOR FEES - TOTAL EXPENSE 44108, PROGRAM SERVICE EXPENSE 44108, MANAGEMENT AND GENERAL EXPENSES , FUNDRAISING EXPENSES ,

Identifier	Return Reference	Explanation
Other changes in net assets or fund balances	Form 990 , Part XI, Line 9	CAPITAL RESOURCE POOL - -572532, CHI CONNECT DEPRECIATION - 49135, SALE OF HOSPICE DIVISION - -55980,

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SCHEDULE R (Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

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

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
FLAGET HEALTHCARE INC

Employer identification number
61-1345363

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
(1) FLAGET RADIATION ONCOLOGY LLC 4305 NEW SHEPHERDSVILLE ROAD BARDSTOWN, KY 40004 61-1345363	ONCOLOGY	KY	0	0	FHC

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	
See Additional Data Table												

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
See Additional Data Table									

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

		Yes	No
1 During the tax year, did the orgranization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?			
a Receipt of **(i)** interest **(ii)** annuities **(iii)** royalties or **(iv)** rent from a controlled entity	1a		No
b Gift, grant, or capital contribution to related organization(s)	1b	Yes	
c Gift, grant, or capital contribution from related organization(s)	1c	Yes	
d Loans or loan guarantees to or for related organization(s)	1d		No
e Loans or loan guarantees by related organization(s)	1e		No
f Dividends from related organization(s)	1f		No
g Sale of assets to related organization(s)	1g		No
h Purchase of assets from related organization(s)	1h		No
i Exchange of assets with related organization(s)	1i		No
j Lease of facilities, equipment, or other assets to related organization(s)	1j		No
k Lease of facilities, equipment, or other assets from related organization(s)	1k		No
l Performance of services or membership or fundraising solicitations for related organization(s)	1l		No
m Performance of services or membership or fundraising solicitations by related organization(s)	1m		No
n Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)	1n	Yes	
o Sharing of paid employees with related organization(s)	1o	Yes	
p Reimbursement paid to related organization(s) for expenses	1p	Yes	
q Reimbursement paid by related organization(s) for expenses	1q	Yes	
r Other transfer of cash or property to related organization(s)	1r		No
s Other transfer of cash or property from related organization(s)	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

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

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

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

Software ID: 12000266
Software Version: v2012.1.0
EIN: 61-1345363
Name: FLAGET HEALTHCARE INC

Part VII **Supplemental Information**

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

Identifier	Return Reference	Explanation

Form 990, Schedule R, Part III - Identification of Related Organizations Taxable as a Partnership

(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? Yes	(h) No	(i) Code V-UBI amount on Box 20 of K-1	(j) General or Managing Partner? Yes	(j) No	(k) Percentage ownership
AUDUBON LAND COMPANY LLC 5390 N ACADEMY BLVD SUITE 300 COLORADO SPRINGS, CO 80918 84-1513085	REAL ESTATE	CO	CHIC	RELATED	34,991	8,665,388		No	0		No	50 1 %
AVANTAS LLC 11128 JOHN GALT BLVD SUITE 400 OMAHA, NE 68137 39-2045003	STAFFING OF NURSES	NE	AHBMHS	RELATED	-210,405	4,806,071		No	-439,536		No	95 %
BERYWOOD OFFICE PROPERTIES LLC 400 BERYWOOD TRAIL CLEVELAND, TN 37312 62-1875199	PHYS OFFICE	TN	MHCS	RELATED	57,545	1,013,237		No	0	Yes		63 %
BLUEGRASS REGIONAL IMAGING CENTER 1218 SOUTH BROADWAY SUITE 310 LEXINGTON, KY 40504 61-1386736	DIAGNOSTIC	KY	SJHS	RELATED	308,428	3,317,191		No	0		No	65 %
CENTRAL NEBRASKA HOME CARE SERVICES PO BOX 1146-4510 SECOND AVENUE KEARNEY, NE 68848 47-0692112	HEALTHCARE SRVC	NE	NA	RELATED	228,435	675,251		No	0	Yes		100 %
CENTRAL NEBRASKA REHAB SERVICES 3004 W FAIDLEY AVE GRAND ISLAND, NE 68802 81-0653461	PHYSICAL THERAPY	NE	SFMC	RELATED	1,710,199	2,712,656		No	0		No	51 %
CHI OPERATING INVESTMENT PROGRAM LP 198 INVERNESS DRIVE WEST ENGLEWOOD, CO 80112 47-0727942	INVESTMENTS	CO	CHI	UNRELATED	344,962,532	4,617,413,792		No	0	Yes		79 92 %
HEALTHCARE SUPPORT SERVICES PO BOX 9804 GRAND ISLAND, NE 68802 72-1546196	LAUNDRY	NE	NA	RELATED	98,583	3,190,677		No	0		No	100 %
MRI AT ST JOSEPH MEDICAL CENTER LLC 7253 AMBASSADOR ROAD BALTIMORE, MD 21244 52-1958002	MEDICAL IMAGING	MD	SJMC	RELATED	423,167	2,174,155		No	0	Yes		51 %
NORTH RIVER SURGERY CENTER LLC 2209 WILDWOOD AVENUE SHERWOOD, AR 72120 71-0799771	AMBUL SURG CTR	AR	SVIMC	RELATED	81,071	1,077,536		No	0		No	57 45 %
O'DEA MEDICAL ARTS LIMITED PARTNERSHIP 7601 OSLER DRIVE TOWSON, MD 21204 52-1682964	REAL ESTATE	MD	TMI	RELATED	9,490	0		No	0	Yes		66 58 %
ORTHOCOLORADO LLC 11650 WEST 2ND PLACE LAKEWOOD, CO 80255 37-1577105	ORTHO HOSPITAL	CO	THC	RELATED	1,846,153	8,411,844		No	0		No	60 %
PENINSULA RADIATION ONCOLOGY LLC 315 MARTIN LUTHER KING JR WAY 111 TACOMA, WA 98405 87-0808610	HEALTHCARE SRVC	WA	FHS	RELATED	256,567	3,262,002		No	0		No	60 %
PENRAD IMAGING 1390 KELLY JOHNSON BLVD COLORADO SPRINGS, CO 80920 84-1072619	MEDICAL IMAGING	CO	CHIC	RELATED	715,094	3,489,436		No	0		No	70 %
RUXTON SURGICENTER LLC 8322 BELLONA AVENUE SUITE 201 BALTIMORE, MD 21204 52-2095835	SURGERY CENTER	MD	SJMC	RELATED	-69,345	0		No	0	Yes		51 %

Form 990, Schedule R, Part III - Identification of Related Organizations Taxable as a Partnership

(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 on Box 20 of K-1	(j) General or Managing Partner?		(k) Percentage ownership
							Yes	No		Yes	No	
SAINT JOSEPH - SCA HOLDINGS LLC 1451 HARRDOSBURG ROAD LEXINGTON, KY 40504 45-3801157	OP SURGERY	DE	SJHS	RELATED	0	0		No	0	Yes		51 %
SCA PREMIER SURGERY CENTER OF LOUISVILLE LLC 200 ABRAHAM FLEXNER WAY LOUISVILLE, KY 40202 72-1386840	SURGERY CENTER	KY	JH	RELATED	3,388	666,017		No	0	Yes		51 %
ST FRANCIS LAND COMPANY LLC 5390 N ACADEMY BLVD SUITE 300 COLORADO SPRINGS, CO 80918 26-3134100	REAL ESTATE	CO	CHIC	RELATED	-130,967	13,823,763		No	0		No	51 %
ST FRANCIS MEDICAL CENTER ASSOCIATES 1717 SOUTH J STREET TACOMA, WA 98405 91-1352698	MED OFFICE	WA	FHS	RELATED	238,717	1,907,063		No	0		No	58 46 %
ST JOSEPH-PAML LLC 424 LEWIS HARGETT CIRCLE STE 160 LEXINGTON, KY 40503 45-2116736	MGMT SVCS	KY	SJHS	RELATED	30,446	1,149,003		No	0	Yes		62 5 %
SUPERIOR MEDICAL IMAGING LLC 5000 NORTH 26TH STREET LINCOLN, NE 68521 26-2884555	OP DIAGNOSTICS	NE	SERMC	RELATED	-200,323	821,112		No	0	Yes		51 %
SURGERY CENTER OF LEXINGTON LLC 424 LEWIS HARGETT CIRCLE STE 160 LEXINGTON, KY 40503 62-1179539	SURGERY CENTER	DE	SJHS	RELATED	-200,318	4,079,584		No	0	Yes		51 %
SURGERY CENTER OF LOUISVILLE LLC 200 ABRAHAM FLEXNER WAY LOUISVILLE, KY 40202 62-1179537	SURGERY CENTER	KY	JH	RELATED	-15,452	396,101		No	0	Yes		51 %
ALEGENT HEALTH NORTHWEST IMAGING CENTER LLC 3606 N 156TH STREET OMAHA, NE 68116 06-1786985	OP DIAGNOSTICS	NE	ACH	RELATED	116,752	776,649		No	0	Yes		51 %
BERGAN MERCY SURGERY CENTER LLC 7710 MERCY ROAD STE 100 OMAHA, NE 68124 20-8671994	AMBUL SURG CTR	NE	ACH	RELATED	142,085	3,294,472		No	0		No	63 94 %
LAKESIDE AMBULATORY SURGICAL CENTER LLC 17031 LAKESIDE HILLS DR OMAHA, NE 68130 20-4267902	AMBUL SURG CTR	NE	ACH	RELATED	3,465,880	1,951,221		No	0		No	51 6 %
LAKESIDE ENDOSCOPY CENTER LLC 17001 LAKESIDE HILLS PLZ STE 201 OMAHA, NE 68130 20-5544496	ENDOSCOPY SRVC	NE	ACH	RELATED	1,455,294	1,013,126		No	0		No	52 28 %
NEBRASKA SPINE HOSPITAL LLC 6901 N 72ND STREET OMAHA, NE 68122 27-0263191	SPINE HOSPITAL	NE	ACH	RELATED	10,501,730	17,301,869		No	0		No	51 %
PRAIRIE HEALTH VENTURES LLC 421 S 9TH ST 102 LINCOLN, NE 68508 20-4962103	TECH SERVICES	NE	AH-IMC	RELATED	1,011,804	5,564,586		No	68,565	Yes		62 7 %
SAINT JOSEPH-ANC HOME CARE SERVICES 1700 EDISON DRIVE SUITE 300 MILFORD, OH 45150 26-3330545	HOME HEALTH	KY	JH	RELATED	3,208,139	9,684,824		No	0		No	96 9 %

Form 990, Schedule R, Part III - Identification of Related Organizations Taxable as a Partnership

(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 on Box 20 of K-1	(j) General or Managing Partner?		(k) Percentage ownership
							Yes	No		Yes	No	
LINCOLN CK LEASING LLC 8770 BRYN MAWR SUITE 1370 CHICAGO, IL 60631 26-2496856	REAL ESTATE	NE	SERMC	RELATED	397,452	439,334		No	0		No	53 76 %
HIGHLINE IMAGING LLC 275 SW 160TH ST BURIEN, WA 98166 20-0460005	DIAGNOSTIC	WA	HMC	RELATED	840,222	1,784,058		No	0		No	80 %
HC SL VINTAGE I LLC 18000 WEST SARAH LANE SUITE 250 BROOKFIELD, WI 53045 27-0453767	PROPERTY HOLD	WI	SL CDC - VINTAGE	RELATED	1,027,057	105,658,490		No	0		No	51 %
ST LUKE'S HOSPITAL AT THE VINTAGE LLC 6624 FANNIN SUITE 2505 HOUSTON, TX 77030 26-3734516	HOSPITAL	TX	SL CDC - VINTAGE	RELATED	-19,253,743	69,158,748		No	0	Yes		51 %
PMC HOSPITAL LLC 6624 FANNIN SUITE 2505 HOUSTON, TX 77030 27-3280598	HOSPITAL	TX	SL CDC - PMC	RELATED	1,092,540	20,751,174		No	0	Yes		51 %
ST LUKE'S DIAGNOSTIC CATH LAB LLP 6620 MAIN ST SUITE 1520 HOUSTON, TX 77030 71-0959365	DIAGNOSTIC	TX	SLHS HOLDINGS	RELATED	273,448	868,814		No	0		No	57 3 %
ST LUKE'S LAKESIDE HOSPITAL LLC 6624 FANNIN SUITE 2505 HOUSTON, TX 77030 30-0427437	HOSPITAL	TX	SL CDC - WOODLANDS	RELATED	1,106,628	25,874,619		No	0	Yes		51 %
ST LUKE'S THE WOODLANDS SLEEP CENTER LLC 6624 FANNIN SUITE 800 HOUSTON, TX 77030 46-2795726	DIAGNOSTIC	TX	SLHS HOLDINGS	RELATED	0	0		No	0		No	51 %

Form 990, Schedule R, Part IV - Identification of Related Organizations Taxable as a Corporation or Trust

(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
ALTERNATIVE INSURANCE MANAGEMENT SERVICE 3900 OLYMPIC BOULEVARD SUITE 400 ERLANGER, KY 41018 84-1112049	MANAGEMENT SERVICES	CO	CHI	C CORPORATION	0	6,272,746	100 %	Yes	
AMERICAN NURSING CARE 1700 EDISON DRIVE MILFORD, OH 45150 31-1085414	HOME HEALTH	OH	CHS	C CORPORATION	5,118,606	51,920,207	100 %	Yes	
AMERIMED INC 1700 EDISON DRIVE MILFORD, OH 45150 31-1158699	HOME HEALTH	OH	ANC	C CORPORATION	2,134,392	14,669,219	100 %	Yes	
BC HOLDING COMPANY INC 1850 BLUEGRASS AVE LOUISVILLE, KY 40215 31-1542851	FITNESS CLUB	KY	JH	C CORPORATION	0	0	100 %	Yes	
CADUCEUS MEDICAL ASSOCIATES INC 5600 BRAINERD ROAD SUITE 500 CHATTANOOGA, TN 37411 62-1570736	HEALTHCARE	TN	MHCS	C CORPORATION	0	1,008	100 %	Yes	
CAPTIVE MANAGEMENT INITIATIVES PO BOX 10073 APO GEORGETOWN, GRAND CAYMAN KY1-1001 CJ 98-0663022	CAPTIVE MANAGEMENT	CJ	CHI	C CORPORATION	0	0	100 %	Yes	
CATHOLIC HEALTH INITIATIVES CENTER FOR TRANSLATIONAL RESEARCH 198 INVERNESS DRIVE WEST ENGLEWOOD, CO 80112 27-2269511	RESEARCH	CO	CIRI	C CORPORATION	-2,286,538	1,241,259	100 %	Yes	
CGH REALTY COMPANY INC 2500 BERNVILLE RD READING, PA 19603 23-2326801	REAL ESTATE	PA	SJHM	C CORPORATION	0	0	100 %	Yes	
COMCARE SERVICES 4231 W 16TH AVENUE DENVER, CO 80204 84-0904813	INACTIVE	CO	CHIC	C CORPORATION	0	0	100 %	Yes	
CONSOLIDATED HEALTH SERVICES 1700 EDISON DRIVE MILFORD, OH 45150 31-1378212	HOME HEALTH	OH	CHI	C CORPORATION	-879,467	52,379,487	100 %	Yes	
DES MOINES MEDICAL CENTER INC 1111 6TH AVENUE DES MOINES, IA 50314 42-0837382	REAL ESTATE	IA	CHI-IA CORP	C CORPORATION	61,204	1,064,032	92 98 %	Yes	
FIRST INITIATIVES INSURANCE LTD PO BOX 10073 APO GEORGETOWN, GRAND CAYMAN KY1-1001 CJ 98-0203038	INSURANCE	CJ	CHI	C CORPORATION	0	0	100 %	Yes	
FRANCISCAN SERVICES INC 198 INVERNESS DRIVE WEST ENGLEWOOD, CO 80112 23-2487967	HEALTHCARE	CO	CHI	C CORPORATION	-7,868	718,254	100 %	Yes	
GOOD SAMARITAN OUTREACH SERVICES PO BOX 1990 KEARNEY, NE 68848 47-0659440	MEDICAL CLINIC	NE	CHI NEBRASKA	C CORPORATION	-257,418	180,468	100 %	Yes	
HEALTH SYSTEMS ENTERPRISES INC PO BOX 1990 KEARNEY, NE 68848 47-0664558	MANAGEMENT	NE	GSH	C CORPORATION	87,278	1,377,820	100 %	Yes	

Form 990, Schedule R, Part IV - Identification of Related Organizations Taxable as a Corporation or Trust

(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
HEALTHCARE MGMT SERVICES ORG INC 1149 MARKET ST TACOMA, WA 98402 91-1865474	HEALTH ORG	WA	FHS	C CORPORATION	0	0	100 %	Yes	
MEDQUEST 1301 15TH AVENUE WEST WILLISTON, ND 58801 45-0392137	SALE OF DME	ND	MMC WILLISTON	C CORPORATION	153,510	1,152,715	100 %	Yes	
MERCY PARK APARTMENTS LTD 1111 6TH AVENUE DES MOINES, IA 50314 42-1202422	HOUSING	IA	CHI-IA CORP	C CORPORATION	369,231	1,937,218	100 %	Yes	
MERCY SERVICES CORP 2700 STEWART PARKWAY ROSEBURG, OR 97470 93-0824308	RETAIL SALES	OR	MMC	C CORPORATION	-440,596	1,423,377	100 %	Yes	
MHSERVICES CORPORATION 198 INVERNESS DRIVE WEST ENGLEWOOD, CO 80112 43-1457881	DME	MO	SJRMC	C CORPORATION	0	0	100 %	Yes	
MOUNTAIN MANAGEMENT SERVICES INC 5600 BRAINERD ROAD SUITE 500 CHATTANOOGA, TN 37411 62-1570739	MGMT SVC ORG	TN	MHCS	C CORPORATION	96,044	6,465,179	100 %	Yes	
NAZARETH ASSURANCE COMPANY PO BOX 10073 APO GEORGETOWN, GRAND CAYMAN KY1-1001 CJ 03-0304831	INSURANCE	CJ	CHI	C CORPORATION	0	0	100 %	Yes	
PATIENT TRANSPORT SERVICES INC 1700 EDISON DRIVE MILFORD, OH 45150 31-1100798	HOME HEALTH	OH	ANC	C CORPORATION	-164,340	5,488,275	100 %	Yes	
PHYSICIAN HEALTH SYSTEM NETWORK 1149 MARKET ST TACOMA, WA 98402 91-1746721	HEALTH ORG	WA	FHS	C CORPORATION	0	0	100 %	Yes	
SAINT CLARES PRIMARY CARE INC 66 FORD ROAD DENVILLE, NJ 07834 22-2441202	BILLING SERVICES	NJ	SCCC	C CORPORATION	-357,263	1,361,242	100 %	Yes	
SAMARITAN FAMILY CARE INC 40 W FOURTH ST 1700 DAYTON, OH 45402 31-1299450	HEALTHCARE	OH	SHP	C CORPORATION	0	0	100 %	Yes	
SJH SERVICES CORPORATION 198 INVERNESS DRIVE WEST ENGLEWOOD, CO 80112 23-2307408	HEALTHCARE	CO	FSI	C CORPORATION	-197,039	3,331,737	100 %	Yes	
SJL PHYSICIAN MANAGEMENT SERVICES INC 424 LEWIS HARGETT CR 160 LEXINGTON, KY 40503 27-0164198	MANAGEMENT	KY	SJHS	C CORPORATION	0	0	100 %	Yes	
ST ANTHONY DEVELOPMENT COMPANY 1415 SOUTHGATE PENDLETON, OR 97801 93-1216943	ATHLETIC CLUB	OR	SAH	C CORPORATION	114,663	2,936,102	100 %	Yes	
ST VINCENT COMMUNITY HEALTH SERVICES INC TWO ST VINCENT CIRCLE LITTLE ROCK, AR 72205 71-0710785	HEALTHCARE	AR	SVIMC	C CORPORATION	2,408,638	15,225,732	100 %	Yes	

Form 990, Schedule R, Part IV - Identification of Related Organizations Taxable as a Corporation or Trust

(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
ST JOSEPH DEVELOPMENT COMPANY INC 1717 SOUTH J STREET TACOMA, WA 98405 91-1480569	RENTAL	WA	FSI	C CORPORATION	655,478	12,357,418	100 %	Yes	
ST JOSEPH OFFICE PARK ASSOCIATION 1401 HARRODSBURG ROAD BLDG B70 LEXINGTON, KY 40504 61-1079899	MANAGEMENT	KY	SJHS	C CORPORATION	0	882,139	85 %	Yes	
TOWSON MANAGEMENT INC 7601 OSLER DRIVE TOWSON, MD 21204 52-1710750	MANAGEMENT SERVICES	MD	FSI	C CORPORATION	516,457	197,196	100 %	Yes	
COLLABHEALTH MANAGED SOLUTIONS INC 198 INVERNESS DRIVE WEST ENGLEWOOD, CO 80112 46-1222808	HOLDING CO	CO	CHI	C CORPORATION	0	23,806,707	100 %	Yes	
COLLABHEALTH PLAN SERVICES INC 198 INVERNESS DRIVE WEST ENGLEWOOD, CO 80112 46-1224037	ADMIN SERVICES	CO	CHMS	C CORPORATION	-1,082,933	38,272,608	100 %	Yes	
HIGHLINE MEDICAL GROUP 15811 AMBAUM BLVD SW 170 BURIEN, WA 98166 91-1407026	MEDICAL SERVICES	WA	HMC	C CORPORATION	-6,049,147	5,689,139	100 %	Yes	
SOUNDPATH HEALTH INC 32129 WEYERHAEUSER WAY S SUITE 201 FEDERAL WAY, WA 98001 42-1720801	INSURANCE	WA	CHPS	C CORPORATION	-154,741	10,976,973	55 6 %	Yes	
SLEHS HOLDINGS INC 6624 FANNIN SUITE 800 HOUSTON, TX 77030 76-0637138	HOLDING CO	TX	SLHS	C CORPORATION	1,425,313	33,114,103	100 %	Yes	
ST LUKE'S ANESTHESIOLOGY ASSOCIATES 6624 FANNIN SUITE 1100 HOUSTON, TX 77030 46-1517163	MEDICAL CLINIC	TX	SLMC	C CORPORATION	0	0	100 %	Yes	
SLMT PARKING INC 6624 FANNIN SUITE 800 HOUSTON, TX 77030 76-0637140	PARKING	TX	SLHS	C CORPORATION	1,117,934	13,768,221	100 %	Yes	
ST LUKE'S 6620 MAIN CONDOMINIUM ASSOCIATION 6624 FANNIN SUITE 1100 HOUSTON, TX 77030 30-0355517	CONDOMINIUM ASSOC	TX	SLPC	C CORPORATION	0	0	100 %	Yes	
ST LUKE'S EPISCOPAL HOSPITAL PHYSICIAN HOSPITAL ORGANIZATION INC 6720 BERTNER HOUSTON, TX 77030 76-0377932	PHO	TX	SLMC	C CORPORATION	6	0	60 %	Yes	
ST LUKE'S MEDICAL ARTS CENTER I CONDOMINIUM ASSOCIATION 6624 FANNIN SUITE 1100 HOUSTON, TX 77030 30-0355518	CONDOMINIUM ASSOC	TX	SLPC	C CORPORATION	0	0	100 %	Yes	
ST LUKE'S MEDICAL TOWER CONDOMINIUM ASSOCIATION 6624 FANNIN SUITE 1100 HOUSTON, TX 77030 76-0298751	CONDOMINIUM ASSOC	TX	SLMTC	C CORPORATION	0	0	100 %	Yes	
SUGAR LAND DOCTOR GROUP 1317 LAKE POINTE PARKWAY SUGAR LAND, TX 77478 45-4270163	MEDICAL CLINIC	TX	SL CHS	C CORPORATION	-1,159,411	566,590	100 %	Yes	

Form 990, Schedule R, Part IV - Identification of Related Organizations Taxable as a Corporation or Trust

(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
THE TEXAS HEART INSTITUTE AT ST LUKE'S EPISCOPAL HOSPITAL DENTON A COOLEY B UILDING CONDOMINIUM ASSOCIATION 6624 FANNIN SUITE 1100 HOUSTON, TX 77030 90-0064009	CONDOMINIUM ASSOC	TX	SLMC	C CORPORATION	0	0	100 %	Yes	
ALEGENT HEALTHCREIGHTON ST JOSEPH MANAGED CARE SERVICES INC 12809 WEST DODGE ROAD OMAHA, NE 68154 47-0802396	MANAGED CARE	NE	ACH	C CORPORATION	5,312,313	4,520,865	100 %	Yes	
ALL SAINTS INSURANCE COMPANY SPC LTD PO BOX 69 GT 720 WEST BAY ROAD GEORGETOWN, GRAND CAYMAN KY-1102 CJ	INSURANCE	CJ	SLHS	C CORPORATION	0	43,866,961	100 %	Yes	
VINTAGE DOCTOR GROUP 6624 FANNIN SUITE 1100 HOUSTON, TX 77030	MEDICAL CLINIC	TX	SLMC	C CORPORATION	0	0	100 %	Yes	

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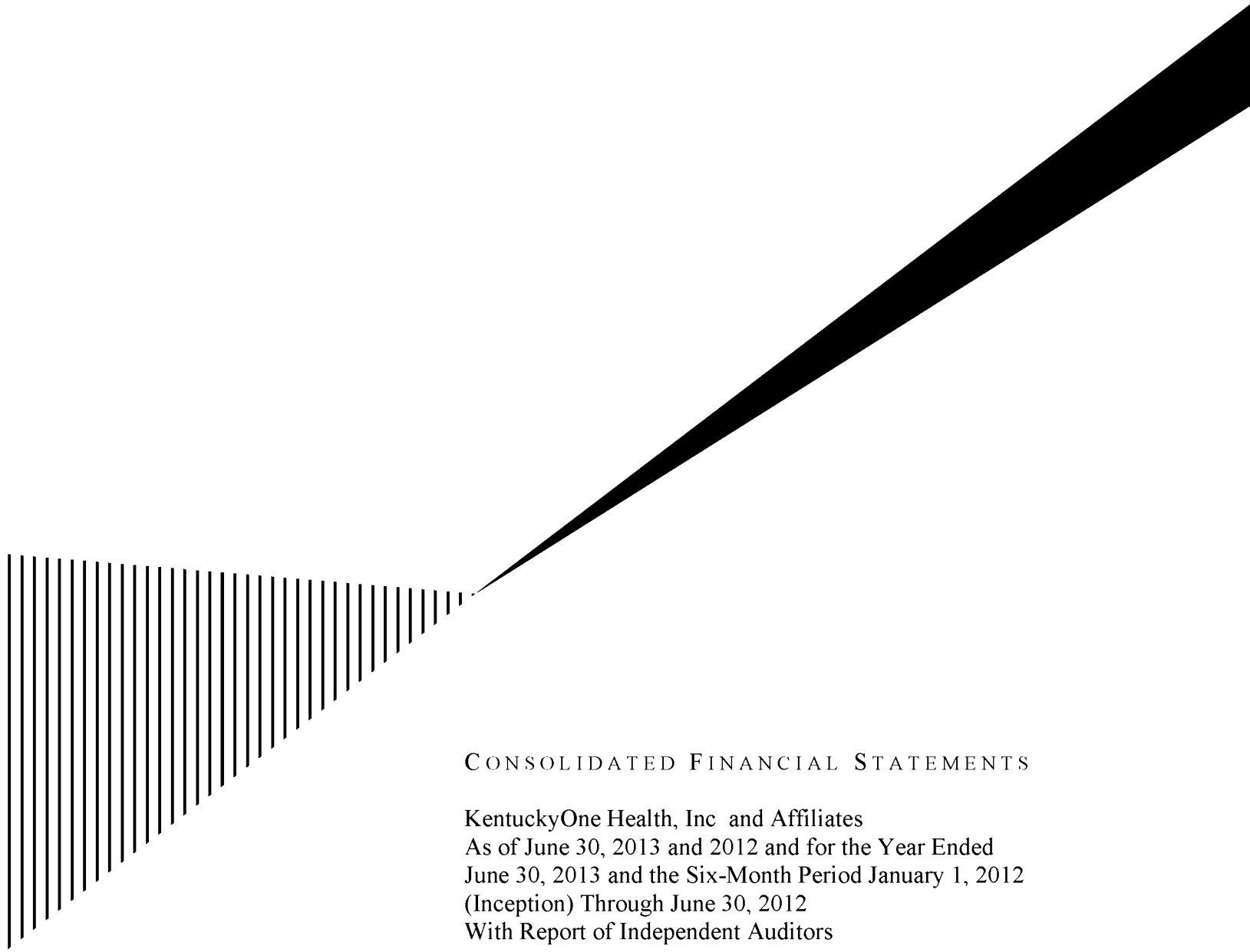

CONSOLIDATED FINANCIAL STATEMENTS

KentuckyOne Health, Inc and Affiliates
As of June 30, 2013 and 2012 and for the Year Ended
June 30, 2013 and the Six-Month Period January 1, 2012
(Inception) Through June 30, 2012
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

KentuckyOne Health, Inc. and Affiliates

Consolidated Financial Statements

As of June 30, 2013 and 2012 and for the Year Ended
June 30, 2013 and the Six-Month Period
January 1, 2012 (Inception) Through June 30, 2012

Contents

Ernst & Young LLP
Suite 2400
400 West Market Street
Louisville, KY 40202
Tel +1 502 585 1400
Fax +1 502 584 4221
www ey com

Report of Independent Auditors

The Board of Directors
KentuckyOne Health, Inc

We have audited the accompanying consolidated financial statements of KentuckyOne Health, Inc and Affiliates (the System), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets, and cash flows for the year ended June 30, 2013 and for the period from January 1, 2012 (inception) through June 30, 2012

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 controls 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 the System as of June 30, 2013 and 2012, and the consolidated results of its operations and changes in net assets and its cash flows for the year ended June 30, 2013 and for the period from January 1, 2012 (inception) through June 30, 2012, in conformity with U S generally accepted accounting principles

Adoption of ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*

As disclosed in Note 1 to the consolidated financial statements, the System changed its presentation and disclosure of bad debt expense as a result of the adoption of the amendments to the Financial Accounting Standards Board's Accounting Standards Codification resulting from Accounting Standards Update No 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.* Our opinion is not modified with respect to this matter

Ernst & Young LLP

October 28, 2013

KentuckyOne Health, Inc. and Affiliates

Consolidated Balance Sheets
(In Thousands)

	June 30 2013	2012
Assets		
Current assets		
Cash and cash equivalents	**$ 72,720**	$ 29,254
Repurchase agreements	**7,540**	29,300
Receivables		
Patient accounts, less estimated doubtful accounts (2013 – $135,028 and 2012 – $107,457)	**349,114**	237,487
Estimated receivable for third-party settlements	**9,008**	–
Other	**8,915**	15,238
	367,037	252,725
Inventories	**38,531**	27,289
Prepaid expenses	**19,438**	12,466
Total current assets	**505,266**	351,034
Investments and assets limited as to use		
Internally designated for capital and other funds	**677,880**	655,305
Restricted by donors	**20,485**	18,637
	698,365	673,942
Investments in unconsolidated organizations	**4,529**	6,315
Property and equipment, net	**1,095,754**	936,402
Intangible assets and goodwill, net	**66,403**	11,756
Long-term insurance receivable	**109,409**	84,322
Other assets	**20,596**	12,817
Total assets	**$ 2,500,322**	$ 2,076,588

	June 30	
	2013	**2012**
Liabilities and net assets		
Current liabilities		
Compensation and benefits	**$ 82,168**	$ 72,221
Estimated payable for third-party settlements	**8,963**	6,689
Accounts payable and accrued expenses	**260,700**	105,871
Acquisition consideration liability	**34,360**	–
Current portion of long-term debt		
CHI capital obligation debt	**28,879**	22,386
Other debt and capital leases	**4,478**	245
Total current portion of long-term debt	**33,357**	22,631
Total current liabilities	**419,548**	207,412
Other liabilities	**6,708**	22,425
Acquisition consideration liability	**170,808**	–
Liability for retirement plan	**22,025**	41,518
Self-insured reserves and claims	**116,806**	84,322
Long-term debt		
CHI capital obligation debt	**717,237**	701,921
Other debt and capital leases	**73,812**	1,732
Total long-term debt	**791,049**	703,653
Total liabilities	**1,526,944**	1,059,330
Net assets		
Unrestricted	**944,882**	992,709
Temporarily restricted	**17,344**	14,823
Permanently restricted	**11,152**	9,726
Total net assets	**973,378**	1,017,258
Total liabilities and net assets	**$ 2,500,322**	$ 2,076,588

See accompanying notes.

KentuckyOne Health, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

(In Thousands)

	For the Year Ended June 30, 2013	Period From January 1, (Inception) to June 30, 2012
Revenues		
Net patient service revenues before provision for doubtful accounts	$ 1,999,165	$ 938,070
Provision for doubtful accounts	(177,730)	(68,276)
Net patient service revenues	1,821,435	869,794
Nonpatient		
Donations	6,393	2,414
Equity (losses) earnings of unconsolidated organizations	(2,969)	809
Investment income	1,130	514
Other revenue	57,560	26,928
Total nonpatient revenues	62,114	30,665
Total operating revenues	1,883,549	900,459
Operating expenses		
Personnel	899,708	421,490
Medical professional fees	60,355	30,234
Purchased services	251,043	89,682
Consulting and legal	15,609	7,778
Supplies	396,481	180,703
Utilities	32,365	13,622
Insurance	23,765	9,683
Rentals, leases and maintenance	74,775	32,775
Depreciation and amortization	90,686	41,341
Interest	35,893	18,087
Other	110,039	38,218
Operating expenses before restructuring expenses	1,990,719	883,613
Operating (loss) income before restructuring expenses	(107,170)	16,846
Restructuring expenses	13,312	15,192
Operating (loss) income	(120,482)	1,654
Nonoperating gains (losses)		
Investment income	64,314	32,901
Loss on defeasance of bonds	–	(69,878)
Nonoperating gains (losses), net	64,314	(36,977)
Excess of expenses over revenue before business combination	(56,168)	(35,323)
Excess of fair value of assets acquired over liabilities assumed in business combination	–	314,930
Excess of (expenses over revenue) revenue over expenses	(56,168)	279,607

Continued on next page

KentuckyOne Health, Inc. and Affiliates

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

(In Thousands)

	For the Year Ended June 30, 2013	Period From January 1, (Inception) to June 30, 2012
Unrestricted net assets		
Excess of (expenses over revenue) revenue over expenses	$ (56,168)	$ 279,607
Transfer from affiliates	2,360	19,708
Change in pension plan assets and obligation	11,625	(5,165)
Contributions to Capital Resource Pool	(5,401)	(3,374)
Net assets released for specific capital purposes and other changes	(243)	1,706
Transfer of net assets from CHI	–	700,227
(Decrease) increase in unrestricted net assets	(47,827)	992,709
Balance, beginning of period	992,709	–
Balance, end of period	$ 944,882	$ 992,709
Temporarily restricted net assets		
Gifts and other receipts for specific purposes	$ 7,286	$ 2,346
Other	(95)	(75)
Net assets released from restrictions	(4,670)	(3,101)
Transfer of temporarily restricted net assets related to business combination	–	7,371
Transfer of temporarily restricted net assets from CHI	–	8,282
Increase in temporarily restricted net assets	2,521	14,823
Balance, beginning of period	14,823	–
Balance, end of period	$ 17,344	$ 14,823
Permanently restricted net assets		
Gifts and other receipts for specific purposes and other	$ 1,331	$ 181
Other	95	–
Transfer of permanently restricted net assets related to business combination	–	6,802
Transfer of permanently restricted net assets from CHI	–	2,743
Increase in permanently restricted net assets	1,426	9,726
Balance, beginning of period	9,726	–
Balance, end of period	$ 11,152	$ 9,726

See accompanying notes

KentuckyOne Health, Inc. and Affiliates

Consolidated Statements of Cash Flows

(In Thousands)

	For the Year Ended June 30, 2013	Period From January 1, (Inception) to June 30, 2012
Operating activities		
(Decrease) increase in net assets	**$ (43,880)**	$ 1,017,258
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Transfer of net assets from CHI	**–**	(711,252)
Transfer of net assets related to business combination	**–**	(329,103)
Transfer from affiliates	**(2,360)**	(19,708)
Contributions received for endowment and specific purposes	**(8,617)**	(2,527)
Loss on early extinguishment of debt	**–**	69,878
Change in fair value of acquisition consideration liability	**(13,357)**	–
Depreciation and amortization	**90,686**	40,596
Change in pension plan assets and obligation	**(11,625)**	5,165
Net gain on disposal of property and equipment	**261**	(46)
Net realized gains and equity earnings on hedge funds and private equity funds	**21**	(458)
Bad debt expense	**177,730**	68,276
Equity in earnings of unconsolidated entities in excess of cash distributions received	**3,129**	(809)
Changes in operating assets and liabilities		
Patient accounts and other receivables	**(227,725)**	(87,435)
Investments and assets limited as to use	**25,694**	80,015
Other current and long-term assets	**(3,530)**	(1,666)
Accounts payable and accrued expenses	**75,877**	(51,935)
Compensation and benefits	**(609)**	16,756
Estimated third-party settlements	**14,168**	1,451
Other liabilities	**(22,677)**	(31,404)
Net cash provided by operating activities	**53,186**	63,052
Investing activities		
Purchase of property and equipment	**(60,953)**	(23,337)
Proceeds from sale of property and equipment	**6**	269
Net cash transferred from CHI and as a result of business combination	**–**	24,156
Proceeds from sale of investment in hedge funds and private equity funds	**14,341**	6,921
Net cash on affiliation with University Medical Center	**53,458**	–
Purchases of investments in hedge funds and private equity funds	**(226)**	(1,071)
Other investing activities	**(124)**	(736)
Net cash provided by investing activities	**6,502**	6,202

Continued on next page

KentuckyOne Health, Inc. and Affiliates

Consolidated Statements of Cash Flows (continued)

(In Thousands)

	For the Year Ended June 30, 2013	Period From January 1, (Inception) to June 30, 2012
Financing activities		
Payments of long-term debt	**$ (23,513)**	$ (13,174)
Contributions for endowment and specific purposes	**8,617**	2,527
Transfer from affiliates	**2,360**	19,708
Payments on acquisition consideration liability	**(2,500)**	–
Defeasance of bonds	**(48,540)**	(450,942)
Proceeds from issuance of new debt	**47,354**	401,881
Net cash used in financing activities	**(16,222)**	(40,000)
Increase in cash and cash equivalents	**43,466**	29,254
Cash and cash equivalents, beginning of period	**29,254**	–
Cash and cash equivalents, end of period	**$ 72,720**	$ 29,254
Additional cash flow information		
Cash paid during the period for interest	**$ 35,893**	$ 27,457
Noncash investing and financing activities		
Additions to property and equipment not paid at period-end	**$ 13,306**	$ 10,462

See accompanying notes

1. Accounting Policies

Organization

KentuckyOne Health, Inc and Affiliates (the System) is a Kentucky non-profit corporation organized and operated to provide a regional health care network in Kentucky and southern Indiana The System is comprised of the operations of Jewish Hospital and St Mary's HealthCare, Inc (JHSMH), Saint Joseph Health System, Inc (SJHS), and Flaget HealthCare Inc (Flaget) (KentuckyOne Health), and the partnership of University of Louisville Hospital and the James Graham Brown Cancer Center (UMC) The System includes nearly 200 locations and 2,293 licensed beds The System and its subsidiaries are an integrated regional health care system that provides a complete array of health care services, including twelve acute care hospitals, outpatient care, cancer care, occupational health, home health care, long-term care, psychiatric care and rehab medicine

Inception

KentuckyOne Health was created effective January 1, 2012, when Catholic Health Initiatives (CHI) and Jewish Heritage Fund for Excellence (JHFE) formerly known as Jewish Hospital Healthcare Services, Inc (JHHS) entered into a Sponsorship and Consolidation Agreement to jointly operate the System, then consisting of the operations of JHSMH, SJHS and Flaget Effective March 1, 2013, KentuckyOne Health, University Medical Center (UMC) and University of Louisville entered into a partnership, structured as a Joint Operating Agreement (JOA) between University Medical Center and KentuckyOne Health, whereby KentuckyOne Health controls substantially all of UMC's operations, which consist of University of Louisville Hospital and the James Graham Brown Cancer Center As part of the agreement, KentuckyOne Health has committed to provide financial support to the University of Louisville over the next 20 years, which as of the acquisition date had a fair value of $217 7 million based upon discounted cash flows and probability-weighted performance assumptions On an undiscounted basis, contingent consideration payments for this acquisition based on probability-weighted performance assumptions may range from zero to $145 0 million For the period from March 1 through June 30, 2013, the operations of UMC contributed $166 3 million of operating revenues and $11 8 million of excess of revenues over expenses to the System consolidated results of operations

(Dollars in Thousands)

1. Accounting Policies (continued)

On an unaudited pro forma basis, had KentuckyOne Health been party to the Joint Operating Agreement with University Medical Center at the beginning of each fiscal year, University Medical Center would have contributed $469 3 million of operating revenues and $23 5 million of operating income before restructuring for the year ended June 30, 2013, and $233 0 million of operating revenues and $13 2 million of operating income before restructuring for the six-month period ended June 30, 2012

As a result of the above Sponsorship and Consolidation Agreement and Joint Operating Agreement, purchase accounting guidance, under Accounting Standards Codification (ASC) Topic 805, *Business Combinations*, and ASC Topic 958, *Not-for-Profit Mergers and Acquisitions*, required the revaluation of all UMC and JHSMH assets and liabilities as of the respective effective date of each agreement An independent valuation was performed to value the assets and liabilities of UMC and JHSMH

Following is the purchase price allocation to assets and liabilities acquired

	UMC
Cash and cash equivalents	$ 53,458
Patient accounts receivable	64,316
Other current assets	29,601
Investments	40,603
Property and equipment	176,004
Goodwill	53,178
Other assets	9,368
Current liabilities	(76,202)
Other liabilities	(9,796)
Debt and capital leases	(122,821)
Acquisition consideration liability	$ 217,709

The consolidated statements of operations and changes in net assets and cash flows for the System include twelve months of operations for the year ended June 30, 2013, and six months of operations for the period from January 1, 2012 (Inception) through June 30, 2012

1. Accounting Policies (continued)

CHI is a Colorado non-profit corporation recognized by the Internal Revenue Service (IRS) as exempt from income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC) CHI sponsors hospitals and other health care providers in 17 states JHFE is a Kentucky non-profit corporation recognized by the IRS as exempt from income taxation under Section 501(c)(3) of the IRC JHFE sponsors healthcare and Jewish community services CHI, through a direct affiliate, and JHFE are the corporate members of KentuckyOne Health with CHI owning 83% and JHFE owning 17% of KentuckyOne Health

As CHI was determined to be the acquiring entity in the January 2012 Sponsorship and Consolidation Agreement with JHSMH, the asset values of SJHS and Flaget remained at historical cost and were reflected as a transfer from CHI in the consolidated statements of operations and changes in net assets

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the System and its subsidiaries All significant inter-affiliate transactions and balances have been eliminated

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of asset, liabilities, revenues and expenses Actual results could vary from those estimates

Cash Equivalents

Cash equivalents consist of certificates of deposits which are carried at cost plus accrued interest, which approximates fair value Cash equivalents are maintained with a financial depository institution and are collateralized by U S government obligations or by the Federal Deposit Insurance Corporation (FDIC) These cash equivalents have an original maturity of three months or less The System may have amounts with financial institutions in excess of those insured by the FDIC

1. Accounting Policies (continued)

Repurchase Agreements

Repurchase agreements represent an arrangement between a financial depository institution (the bank) and the System, where the bank sells the market value of securities to the System equal to the closing balance of the System's cash balance on a daily basis Under the terms of the agreement, the bank agrees to repurchase the securities the following day at par plus interest Repurchase agreements are converted to cash on a daily basis

Investments and Assets Limited as to Use

The System owns an interest in the CHI Operating Investment Program Limited Partnership (the Program) The Program is structured under a limited partnership agreement with CHI as managing general partner and numerous limited partners, most affiliated with CHI The partnership provides a vehicle whereby entities associated with CHI, as well as certain other unrelated entities can optimize investment returns while managing investment risk The System's interest in the Program is reported within investments and assets limited as to use within the accompanying consolidated balance sheets and is reported based upon net asset value derived from the application of the equity method of accounting

The System has designated its investment portfolio as trading Investments are recorded at fair value as determined by reference to quoted market prices or other sources when applicable (see Note 10) Unrealized gains and losses on marketable securities that have been designated as trading securities are included within the (excess of expenses over revenue) excess of revenue over expenses In addition, cash flows from the purchases and sales of marketable securities designated as trading are reported as a component of operating activities in the accompanying consolidated statements of cash flows

Investment income consists of realized gains and losses on the sale of investments, the market valuation changes in investments, and dividend and interest income Realized gains and losses are calculated based on the specific identification method Investment income is included in the (excess of expenses over revenue) excess of revenue over expenses unless the income or loss is restricted by donor or by law

Operating revenue includes investment income, which relates to earnings on funds that have been Board designated for the funding of current medical research expenses

(Dollars in Thousands)

1. Accounting Policies (continued)

Investment income is summarized for the year ended June 30, 2013 and for the six-month period ended June 30, 2012 in the following tables

	2013	2012
Market valuation changes in hedge, private equity funds, and the limited partnership	**$ (1,254)**	$ (227)
Market valuation change in all other securities	**26,635**	6,275
Interest, dividends, and realized gains, net of fees	**40,063**	27,367
Total investment income	**$ 65,444**	$ 33,415
Investment income included in operating revenue	**$ 1,130**	$ 514
Investment income included in nonoperating revenue	**64,314**	32,901
Total investment income	**$ 65,444**	$ 33,415

Fair Value of Financial Instruments

The System follows the provisions of Financial Accounting Standards Board (FASB) accounting guidance, which establishes a framework for measuring fair value in GAAP, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements

Applicable accounting guidance establishes a three-level hierarchy for fair value measurements The 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 – Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets

- Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument

- Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurement

1. Accounting Policies (continued)

Inventories

Inventories, primarily consisting of pharmacy drugs, and medical and surgical supplies, are stated at the lower of cost or market (first-in, first-out method)

Investments in Unconsolidated Organizations

Investments in unconsolidated organizations are accounted for under the cost or equity method of accounting, as appropriate, based on the relative percentage of ownership or degree of influence over that organization The equity income or loss on these investments is recorded in the consolidated statements of operations and changes in net assets as changes in equity of unconsolidated organizations The equity in earnings of the unconsolidated organizations accounted for on the equity method is included in income from operations because these organizations' activities are considered to be ongoing or central to the provision of health care services

Charity Care

As an integral part of its mission, the System accepts and treats all patients without regard to their ability to pay A patient is classified as a charity patient by reference to certain established policies of the operating entities Essentially, these policies define charity services as those services for which no payment is anticipated The System identifies patients needing assistance by applying certain demographic and credit criteria that were modeled after criteria used in the health care industry The System's policy is to estimate charity care cost by using a cost to gross charge ratio Estimated charity care at cost was $90,547 and $44,864 for the year ended June 30, 2013 and the six-month period ended June 30, 2012, respectively Charity care costs include provider taxes paid to the Commonwealth of Kentucky net of reimbursement from the Kentucky Hospital Care Program (KHCP) (see Note 3)

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation other than JHSMH and UMC property and equipment acquired as part of the System transactions (see Notes 1 and 10) Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the respective assets Assets recorded under capital leases are

1. Accounting Policies (continued)

depreciated over the estimated useful life of the related asset or the lease term, whichever is shorter Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets

Gifts involving land, buildings or equipment are reported as unrestricted support, unless there are explicit donor stipulations specifying how the donated assets must be used Gifts of long-term assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-term assets are reported as restricted support Absent explicit donor stipulations about how long those long-term assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-term assets are placed in service

Impairment of Assets

Properties and other long-lived assets are reviewed for impairment whenever events or business conditions indicate that the carrying amount of such assets may not be fully recoverable Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or a group of assets Where impairment is indicated, the asset's carrying amount is reduced to fair value based on discounted net cash flows or other estimates of fair value No asset impairment loss was recognized for the year ended June 30, 2013 nor the six-month period ended June 30, 2012

Goodwill

Goodwill represents the excess of the purchase cost over the fair value of net assets acquired and is subject to annual impairment tests as well as more frequent reviews whenever the circumstances indicate a possible impairment may exist The System performed an impairment analysis on all goodwill at June 30, 2013 except for goodwill generated as a result of the March 1, 2013 JOA with UMC At June 30, 2012, the System engaged independent consultants to perform an impairment analysis on goodwill In conducting the impairment test, the fair value of the reporting unit is compared to its respective carrying amount including goodwill If the fair value exceeds the carrying amount, no impairment exists If the carrying amount exceeds the fair value, further analysis is performed to assess impairments The System's determination of fair value is based on an income approach with an appropriate discount rate Significant assumptions inherent in this methodology are employed and include such estimates as discount rates No

1. Accounting Policies (continued)

impairment loss was recognized as a result of the impairment test Goodwill balances of $65,186 and $11,186 are reflected in the consolidated balance sheets as of June 30, 2013 and 2012, respectively Goodwill increased $53,178 in fiscal year 2013 as a result of the Joint Operating Agreement with UMC, which primarily represents the expected future benefits to be realized by the System upon the integration of UMC

Patient Receivables and Net Patient Service Revenue

Patient receivables and net patient service revenue are derived primarily from patients who reside in Kentucky and southern Indiana Patient receivables consist of amounts due from individual patients and third-party payors, including federal and state programs and commercial insurance companies for health care services rendered Management maintains an allowance for doubtful accounts to reserve for estimated losses based on the length of time the account has been past due and historical collection experience In accordance with Accounting Standards Update No 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Health Entities*, the provision for doubtful accounts is presented on the consolidated statements of operations and changes in net assets as a deduction from patient services revenues (net of contractual allowances and discounts) since the System accepts and treats all patients without regard to the ability to pay

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments due to future audits by third-party payors Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits by third-party payors The changes in estimates as a result of appeal settlements and other cost report or fee adjustments resulted in an increase in net patient service revenue of $1,463 and $18,029 for the year ended June 30, 2013 and for the six-month period ended June 30, 2012, respectively

At March 1, 2013, the System added approximately $64,316 in net patient accounts receivable due to the acquisition of UMC – see Note 1, *Accounting Policies* As a result, the accounts receivable reserve and allowance accounts have increased substantially from June 30, 2012 Exclusive of acquisition activity, the total write-offs of uncollectible accounts and reserves on self-pay patient accounts have not changed significantly from year to year The System has not experienced significant changes in write-off trends and there have been no significant changes to its charity policy

(Dollars in Thousands)

1. Accounting Policies (continued)

Net patient accounts receivable included the following allowances as of June 30, 2013 and 2012

	Reserve for Contractual Allowance	Allowance for Doubtful Accounts	Reserve for Charity	Total Accounts Receivable Allowances
Balance at January 1, 2012	$ 308,920	$ 146,336	$ 49,755	$ 505,011
Additions	1,632,736	68,276	138,504	1,839,516
Reductions	(1,607,099)	(107,155)	(137,285)	(1,851,539)
Balance at June 30, 2012	334,557	107,457	50,974	492,988
Additions	4,065,679	182,799	652,840	4,901,318
Reductions	(3,790,609)	(155,228)	(301,719)	(4,247,556)
Balance at June 30, 2013	$ 609,627	$ 135,028	$ 402,095	$ 1,146,750

Other Revenue

Other revenue is related to the furtherance of operating activities but is not directly related to patient services Other revenue includes retail pharmacy revenue, rental revenue, cafeteria revenue, Medicaid program meaningful use incentives and various other miscellaneous revenues

Contributions

Contributions are recorded at fair value in the period received or pledged Donor-restricted contributions 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 the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets along with unrestricted contributions as other operating revenue Donor-restricted contributions whose restrictions are met within the same year as received are accounted for as unrestricted contributions Permanently restricted net assets have been restricted by donors and are to be maintained by the System in perpetuity

1. Accounting Policies (continued)

(Excess of Expenses Over Revenue) Excess of Revenue Over Expenses

The consolidated statements of operations and changes in net assets include (excess of expenses over revenue) excess of revenue over expenses Changes in unrestricted net assets that are excluded from (excess of expenses over revenue) excess of revenue over expenses, consistent with industry practice, include contributions of long-term assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), contributions to the CHI Capital Resource Pool and changes in pension plan assets and obligations

Operating Activities and Nonoperating Gains

Only those activities directly associated with the furtherance of the System's primary mission are considered to be operating activities Other activities that result in gains or losses are considered to be nonoperating gains Nonoperating gains include investment income and loss on the defeasance of bonds

Restructuring Expenses

Restructuring expenses are included in the consolidated statements of operations and changes in net assets These include internal and external integration costs as a result of the business combination and System reorganization

Functional Expenses

The System's general and administrative costs represented approximately 19% of total operating expenses for both the year ended June 30, 2013 and the six-month period ended June 30, 2012

Self-Insured Reserves and Claims

The provision for estimated self-insured medical malpractice and workers' compensation claims includes estimates of the ultimate costs for incurred claims that have been identified and for claims that have been incurred but not reported

1. Accounting Policies (continued)

Income Taxes

The majority of the System's income and most of the entities that it owns are exempt from federal and state income taxes as not-for-profit corporations that are recognized by the IRS as defined in Section 501(c)(3) of the IRC and applicable state statutes

Meaningful Use of Certified Electronic Health Record Technology Incentive Payments

The American Recovery and Reinvestment Act of 2009 established incentive payments under 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 System's attainment of program and attestation criteria and are subject to regulatory audit The System accounts for meaningful use incentive payments under the gain contingency model For the year ended June 30, 2013 and the six-month period ended June 30, 2012, the System has recognized revenue of $275 and $2,656, respectively, related to this program

Reclassifications

Certain 2012 amounts have been reclassified to conform with 2013 presentation Such reclassifications have no impact on the amounts previously reported for (excess of expenses over revenues) excess of revenues over expenses

2. Community Benefit (unaudited)

In accordance with its mission and philosophy, the System commits substantial resources to sponsor a broad range of services to both the indigent as well as the broader community Community benefit provided to the indigent includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured This type of community benefit includes the costs of traditional charity care, unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs, services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed, and cash and in-kind donations of equipment, supplies or staff time volunteered on behalf of the community

(Dollars in Thousands)

2. Community Benefit (unaudited) (continued)

Community benefits provided to the broader community includes the costs of providing services to other populations who may not qualify as indigent but may need special services and support This type of community benefit includes the costs of services such as health promotion and education, health clinics and screenings, all of which are not billed or can be operated only on a deficit basis, unpaid portions of training health professionals such as medical residents, nursing students and students in allied health professions, and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols

A summary of the cost of community benefit provided to both the indigent and the broader community for the year ended June 30, 2013 and six-month period ended June 30, 2012 is as follows

	2013	2012
Charity care at cost (includes provider tax, net)	**$ 90,547**	$ 44,864
Unreimbursed cost of Medicaid	**13,994**	7,825
Unreimbursed cost of Medicare	**9,928**	–
Means-tested programs	**12,565**	6,151
Community health improvement services	**8,247**	1,852
Health professions education	**912**	701
Subsidized health services	**1,058**	1,046
Research	**4,617**	2,196
Financial and in-kind contributions	**2,429**	893
Community benefit operations	**114**	18
Community building activities	**136**	65
Total	**$ 144,547**	$ 65,611

The summary above has been prepared in accordance with the policy document of the Catholic Health Association of the United States (CHA), *A Guide for Planning and Reporting Community Benefit.* Community benefit is measured on the basis of total cost, net of any offsetting revenue, donations or other funds used to defray cost (see Note 3 for subsidy amounts)

(Dollars in Thousands)

3. Net Patient Service Revenue

Net patient service revenue for the year ended June 30, 2013 and the six-month period ended June 30, 2012 is comprised of the following

	2013	2012
Charges at established rates		
Medicare	**$ 2,587,598**	$ 1,221,847
Medicaid	**675,966**	299,298
Other third-party payors	**2,367,224**	980,099
Self-pay	**570,191**	208,065
Total charges at established rates	**6,200,979**	2,709,309
Contractual deductions		
Medicare allowance	**1,809,271**	803,888
Medicaid allowance	**480,447**	203,287
Other contractual allowances	**1,564,344**	625,532
Total contractual deductions	**3,854,062**	1,632,707
Uncompensated care		
Charity	**347,752**	138,532
Bad debts	**177,730**	68,276
Total uncompensated care	**525,482**	206,808
Net patient service revenue	**$ 1,821,435**	$ 869,794

Reimbursement from the Medicare program is determined from annual cost reports, which are subject to audit by the program The System's management believes that amounts recorded in the consolidated financial statements for estimated settlements will approximate the final settlements for open cost reports The System's cost reports for substantially all of its controlled subsidiaries have been audited by the government or its agents and settled through December 31, 2008 In the health care industry, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation The System believes that it is in substantial compliance with all applicable laws and regulations except as noted below Compliance with health care industry, 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 Certain entities of the System have been contacted by governmental agencies regarding alleged violations of Medicare and Medicaid practices for

3. Net Patient Service Revenue (continued)

certain services Estimates have been made and recorded related to these matters As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term The System has agreements with Medicare, Medicaid, and other third-party payors that provide for payments at amounts different from their established rates A summary of the payment arrangements with major third-party payors is described in the following paragraphs

Medicare

Inpatient medical and surgical acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors Outpatient services are reimbursed on a prospective payment system with services classified into clinically similar ambulatory payment classes regardless of cost

Inpatient rehabilitation services are paid on a prospective payment system based on principal diagnosis Home health services are reimbursed using a prospective payment system based on episodes of care Medicare net revenue was approximately 43% and 42% of total net patient service revenue for the year ended June 30, 2013 and the six-month period ended June 30, 2012, respectively

Medicaid

The Kentucky Medicaid program reimburses the System on a prospectively determined rate per discharge for inpatient services and on the basis of fee schedules and cost to charge ratios, as defined, for outpatient services Medicaid net revenue was approximately 11% and 10% of total net patient service revenue for the year ended June 30, 2013 and the six-month period ended June 30, 2012, respectively

Other

The System has also entered into payment agreements with certain commercial insurance carriers and health maintenance and preferred provider organizations The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates

3. Net Patient Service Revenue (continued)

The Commonwealth of Kentucky (the Commonwealth) has established a provider tax program and imposes a fixed tax on health care providers primarily based on historical payments made to the program This tax was $28,892 and $13,493 for the year ended June 30, 2013 and the six-month period ended June 30, 2012, respectively, and is included in other operating expenses The Commonwealth provides for a system of reimbursement for services provided to certain Medicaid patients and other patients meeting specified income guidelines KHCP reimbursement was $28,635 and $6,962 for the year ended June 30, 2013 and the six-month period ended June 30, 2012, respectively, and is included in net patient service revenue as a reduction of charity care provision

Urban Trauma payment is a Kentucky Medicaid payment for hospitals designated as disproportionate share hospitals Urban Trauma payments of $7,672 and $0 for the year ended June 30, 2013 and the six-month period ended June 30, 2012, respectively, were received by the System from Passport and are included in net patient service revenue on the consolidated statements of operations for the year ended June 30, 2013

The Quality and Charity Care Trust Agreement between UMC, UofL, and the Commonwealth and Louisville Metro government (QCCT Agreement) provides limited funding for the health care needs of economically disadvantaged persons of Jefferson County, Kentucky Funding under the QCCT Agreement is provided by the Louisville Metro government, the Commonwealth, and UofL and is an annual fixed amount which is not related to volume In consideration of funding to the System under the QCCT Agreement, the System provides medically necessary services to medically needy persons, as defined in the QCCT Agreement QCCT payments of $9,863 and $0 for the year ended June 30, 2013 and the six-month period ended June 30, 2012, respectively, are included in net patient service revenue on the consolidated statements of operations for the year ended June 30, 2013

(Dollars in Thousands)

4. Property and Equipment, Net

Property and equipment is as follows at June 30

	2013	2012
Land and land improvements	**$ 87,811**	$ 84,038
Buildings and improvements	**798,422**	819,334
Equipment	**481,484**	410,550
Leasehold improvements	**77,614**	14,116
Capital leases	**71,141**	360
Construction-in-progress	**47,168**	19,231
	1,563,640	1,347,629
Accumulated depreciation and amortization	**467,886**	411,227
	$ 1,095,754	$ 936,402

5. Debt

The System participates in a unified CHI credit program governed under a Capital Obligation Document (COD) Under the COD, CHI is the sole obligor on all debt Bondholder security resides both in the unsecured promise by CHI to pay its obligations and in its control of direct affiliates Covenants include a minimum CHI debt coverage ratio and certain limitations on secured debt The System, as a direct affiliate of CHI, is defined as a Participant under the COD and has agreed to certain covenants related to corporate existence, maintenance of insurance and exempt use of bond-financed facilities The System has in place certain intercompany notes with CHI, which include monthly installments at a variable rate of interest and may be repaid in advance without penalty

(Dollars in Thousands)

5. Debt (continued)

Long-term debt at June 30 consists of the following

	2013	2012
CHI note payable, dated 6/16/98, maturity date 12/1/15	**$ 1,288**	$ 1,758
CHI note payable, dated 6/16/98, maturity date 12/1/17	**3,452**	4,114
CHI note payable, dated 6/16/98, maturity date 12/1/22	**31,263**	33,722
CHI note payable, dated 11/23/98, maturity date 12/1/18	**3,778**	4,363
CHI note payable, dated 11/1/02, maturity date 12/1/12	**–**	82
CHI note payable, dated 11/1/02, maturity date 12/1/17	**1,600**	1,911
CHI note payable, dated 4/1/03, maturity date 12/1/12	**–**	129
CHI note payable, dated 11/1/05, maturity date 12/1/17	**16,503**	20,810
CHI note payable, dated 12/1/05, maturity date 12/1/20	**13,571**	15,036
CHI note payable, dated 7/29/07, maturity date 12/1/22	**3,251**	3,514
CHI note payable, dated 2/1/09, maturity date 12/1/17	**473**	520
CHI note payable, dated 12/1/09, maturity date 12/1/34	**63,601**	65,235
CHI note payable, dated 10/12/10, maturity date 12/1/29	**88,058**	91,913
CHI note payable, dated 1/1/11, maturity date 12/1/35	**30,623**	31,353
CHI note payable, dated 5/12/11, maturity date 12/1/32	**48,751**	49,499
CHI note payable, dated 1/1/12, maturity date 12/1/25	**39,100**	41,830
CHI note payable, dated 5/1/12, maturity date 12/1/36	**356,638**	358,518
CHI note payable, dated 11/1/12, maturity date 12/1/15	**5,166**	–
CHI note payable, dated 6/3/13, maturity date 12/1/21	**39,000**	–
Capital leases	**68,309**	231
Other debt	**9,981**	1,746
	824,406	726,284
Less amount due within one year	**33,357**	22,631
Long-term debt due after one year	**$ 791,049**	$ 703,653

All of the notes payable to CHI bear a variable quarterly average interest rate, which was 4 75% at June 30, 2013 The variable rate associated with the notes payable to CHI is based on a blended rate of the external underlying fixed and variable debt held by CHI

5. Debt (continued)

As of March 1, 2013, UMC held $48,540 fair market value Series 1997 Bonds issued by the County of Jefferson, the proceeds of which were loaned to UMC under the terms of a Note and Master Trust Indenture dated June 15, 1997 The Series 1997 Bonds were defeased on June 3, 2013, and resulted in no gain or loss on defeasance The System entered into a note payable to CHI in the amount of $39,000 to fund the defeasance of the Series 1997 Bonds

As of March 1, 2013, UMC held lease obligations related to the hospital facilities that were classified as capital leases obligations The amount of these capital leases is $68,148 and is recorded on the consolidated balance sheet as other debt and capital leases at June 30, 2013

Prior to January 1, 2012, JHSMH and JHFE, together hereinafter referred to as the Obligated Group, were party to a Master Trust Indenture for the purpose of providing for the issuance of bonds from time to time by any of the Obligated Group members to refinance outstanding indebtedness or to finance the acquisition of capital improvements As of January 1, 2012, there were two outstanding bonds from the Obligated Group, but both were defeased subsequent to the formation of the System As of January 6, 2012, the transaction closing date, JHFE was released from the Obligated Group As of April 5, 2012, all debt obligations under the Master Trust Indenture were cancelled and JHSMH was released of all Master Trustee's rights and the Master Trust Indenture ceased The two bonds outstanding as of January 1, 2012 were $60,000 for the 1996 Health Facilities Revenue Bonds issued by the County of Jefferson, Kentucky (the 1996 Bonds), and $330,000 for the 2008 Metro Government Health Facilities Revenue Bonds (the 2008 Bonds) issued by Louisville/Jefferson County

The 1996 Bonds were defeased on January 6, 2012 The System entered into a note payable to CHI in the amount of $43,158 to fund the costs of the 1996 Bonds defeasance A loss on the defeasance of the 1996 Bonds of $479 is recorded on the consolidated statements of operations and changes in net assets as a nonoperating loss for the six-month period ended June 30, 2012

The 2008 Bonds were defeased on April 5, 2012 The System entered into a note payable to CHI in the amount of $358,723 to fund the costs of the 2008 Bonds defeasance A loss on the defeasance of the 2008 bonds of $69,399 is recorded on the consolidated statements of operations and changes in net assets as a nonoperating loss for the six-month period ended June 30, 2012

(Dollars in Thousands)

5. Debt (continued)

The loss on defeasance was primarily related to the excess of escrow funds required over the amount of the bonds that were defeased Escrow funds in the amount of $411,341 as of April 5, 2012 were placed with the Bank of New York Mellon Trust Company (Escrow Agent) to cover future redemption of these Bonds

The System has a line of credit agreement that provides for borrowings of $4,000, which is required by a commercial card agreement There were no outstanding amounts borrowed on the line of credit at June 30, 2013 and 2012

At June 30, 2013, aggregate maturities on long-term debt and capital leases are as follows

2014	$ 33,357
2015	34,795
2016	34,544
2017	33,377
2018	34,222
Thereafter	654,111
	$ 824,406

6. Retirement Plans

The System has a defined benefit retirement plan covering substantially all of its JHSMH employees This defined benefit retirement plan was curtailed in 2009 and all benefits were frozen as of January 1, 2010 In 2010, the defined benefit retirement plans covering key employees were rolled into individual noncontributory-defined contribution retirement plans Information related to the noncontributory-defined benefit plan (the Plan) is presented below

Components of net periodic pension benefit cost related to the Plan for the year ended June 30, 2013 and the six-month period ended June 30, 2012, were as follows

	2013	**2012**
Interest cost	**$ 7,041**	$ 3,548
Expected return on plan assets	**(10,664)**	(5,427)
Recognized actuarial (gain) loss and settlement	**(635)**	237
Net periodic pension benefit cost	**$ (4,258)**	$ (1,642)

(Dollars in Thousands)

6. Retirement Plans (continued)

The change in projected benefit obligation and the fair value of plan assets for the year ended June 30, 2013 and the six-month period ended June 30, 2012, and the funded status of the Plan as of June 30, 2013 and 2012 were as follows

	2013	2012
Projected benefit obligation, beginning of period	**$ 185,205**	$ 183,733
Interest cost	**7,041**	3,548
Actuarial loss	**(7,652)**	7,195
Settlements	**(15,055)**	(8,495)
Benefits paid	**(1,533)**	(776)
Projected benefit obligation, end of period	**168,006**	185,205
Fair value of plan assets, beginning of period	**143,687**	136,188
Actual gain on plan assets	**15,432**	7,220
Employer contributions	**3,450**	9,550
Settlements	**(15,055)**	(8,495)
Benefits paid	**(1,533)**	(776)
Fair value of plan assets, end of period	**145,981**	143,687
Unfunded status/net recorded liability	**$ (22,025)**	$ (41,518)

The net gain (loss) recognized in unrestricted net assets for the year ended June 30, 2013 was $11,625 and for the six-month period ended June 30, 2012, was $(5,165) Under purchase accounting guidance, ASC Topic 805, *Business Combinations*, and ASC 958, *Not-for-Profit Mergers and Acquisitions*, an adjustment was made to eliminate amounts accumulated in net assets of the Plan as part of establishing the System's January 1, 2012 opening balance sheet Included in unrestricted net assets at June 30, 2013 and 2012 is an unrecognized actuarial (gain) loss of ($7,082) and $4,703, respectively, which has not yet been recognized in net periodic benefit cost None of this actuarial (gain) loss is expected to be recognized during the fiscal year ending June 30, 2014

The accumulated benefit obligation for all defined benefit pension plans was $168,006 and $185,205 at June 30, 2013 and 2012, respectively

(Dollars in Thousands)

6. Retirement Plans (continued)

The weighted-average assumptions used to determine net periodic pension costs for the year ended June 30, 2013 and the six-month period ended June 30, 2012 were as follows

	2013	2012
Discount rate	**4.00%**	4 55%
Expected return on plan assets	**7.75**	8 00

The weighted-average assumptions used to determine benefit obligations at June 30, 2013 and 2012 were as follows

	2013	2012
Discount rate	**4.60%**	4 00%
Expected return on plan assets	**7.75**	8 00

In selecting the expected return on plan assets, the System considers historical returns as well as adherence to future asset allocations

The majority of the System's plan assets are invested in a CHI Plan Assets Investment Program (the Plan Asset Program) that provides for asset allocation in strategies across equity and debt markets, both domestic and international, and alternative investments Alternative investments consist of hedge funds, private equity funds, and other securities organized as limited liability companies and partnerships The portfolio's objectives are preservation of principal, investment growth of assets consistent with reasonable actuarial assumptions, competitive returns, minimization of unnecessary risk, and consistency with CHI social responsibility investment guidelines Strategies are followed which increase or decrease investments in the equity and debt markets based upon the value of the stock and bond markets and the relative value of a wide variety of securities within these markets Consideration is given to several variables, including productivity, inflation, global competitiveness, and risk

(Dollars in Thousands)

6. Retirement Plans (continued)

The target and range asset allocations for the plan assets set forth in the Plan Asset Program's investment policies are as follows

	Target	Range
Marketable debt securities	25 0%	15 0% to 35 0%
Marketable equity securities	52 5%	42 5% to 62 5%
Alternative investments	22 5%	12 5% to 32 5%

As of June 30, 2013, the System believes that there is not a specific concentration of risk in the underlying pool The System does recognize that all investments are subject to market risks and that changes in the market may have a material effect on the plan assets

Nearly all of the System's plan assets are represented by pool units rather than specific securities The Plan Asset Program is not necessarily readily marketable and may include short sales on securities and trading in future contracts, options, foreign currency contracts, other derivative instruments and private equity investments Management has determined that the net asset value (NAV) is an appropriate estimate of the fair value of these pooled units at June 30, 2013 and 2012 based on the underlying investment being recorded at fair value within the Plan Asset Program As the System has the ability to redeem its pooled units with no adjustment at the measurement date and there are no significant restrictions on liquidating these investments, the investment is categorized as a Level 2 measurement in the fair value hierarchy considerations The inputs and valuation techniques as of June 30, 2013 and 2012 used for valuing the pooled units is primarily NAV, which represent a market valuation approach The valuation of cash and cash equivalents is described in Note 10

(Dollars in Thousands)

6. Retirement Plans (continued)

The following tables presents the financial instruments of the Plan's assets at fair value as of June 30, as defined by the level hierarchy for fair value measurements in Note 1

	2013			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Assets				
Cash and cash equivalents	**$ 741**	**$ –**	**$ –**	**$ 741**
Plan Asset Program	**–**	**145,018**	**–**	**145,018**
Hedge funds	**–**	**–**	**222**	**222**
Total assets at fair value	**$ 741**	**$ 145,018**	**$ 222**	**$ 145,981**

	2012			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Assets				
Cash and cash equivalents	$ 13,941	$ –	$ –	$ 13,941
Plan Asset Program	–	119,786	–	119,786
Hedge funds	–	–	9,960	9,960
Total assets at fair value	$ 13,941	$ 119,786	$ 9,960	$ 143,687

The following is a rollforward of the amounts for financial instruments of the Plan's assets within Level 3 of the valuation hierarchy defined in Note 1 for the year ended June 30, 2013 and the six-month period ended June 30, 2012

	2013	**2012**
Balance, beginning of period	**$ 9,960**	$ –
Plan acquired assets	**–**	14,790
Sales/redemptions	**(9,776)**	(4,736)
Change in fair market value	**38**	(94)
Balance, end of period	**$ 222**	$ 9,960

(Dollars in Thousands)

6. Retirement Plans (continued)

The carrying value of the hedge funds is based on valuations provided by the administrators of the specific financial instruments The valuation methods for all other securities are consistent with Note 10 The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, and private equity investments The underlying investments themselves are subject to various risks including market, credit, liquidity and foreign exchange risk The fair value is based on the percentage ownership of the net asset value of the funds based on the fact that the hedge funds are audited and accounted for at fair value by the respective administrators of the funds The System believes the carrying amount of these financial instruments in the consolidated balance sheets is a reasonable estimate of ownership interest Because these financial instruments are not readily marketable, the estimated carrying value is subject to uncertainty, and, therefore, may differ from the value that would have been used had a market for such financial instruments existed

The System expects to contribute approximately $1,300 to the defined benefit pension plans in the fiscal year ended June 30, 2014

Benefits expected to be paid to the Plans' beneficiaries are as follows

2014	$ 12,688
2015	12,093
2016	11,649
2017	12,325
2018	10,966
2019 through 2023	50,545

The System has a defined contribution retirement plan covering substantially all of its former JHSMH employees Pension expense of $9,517 and $9,653 was recorded for these defined contribution plans for the year ended June 30, 2013 and the six-month period ended June 30, 2012, respectively The net recorded liability for these plans at June 30, 2013 and 2012 was $5,191 and $5,956, respectively, and is included in other current liabilities on the consolidated balance sheets

6. Retirement Plans (continued)

The System has noncontributory defined contribution retirement plans covering certain key former JHSMH employees Pension expense of $0 and $420 was recorded for these defined contribution plans for the year ended June 30, 2013 and the six-month period ended June 30, 2012, respectively The System has recorded both plan assets and liabilities for these plans at June 30, 2013 and 2012 of $1,420 and $2,893, respectively, which are included in other assets and other liabilities on the consolidated balance sheets

The System also participates in the CHI defined benefit retirement plan which is a multi-employer, noncontributory, cash balance plan covering substantially all employees of SJHS Pension expense for the year ended June 30, 2013 and the six-month period ended June 30, 2012 was $15,272 and $7,802, respectively As a multi-employer plan, separate measurements of assets and pension benefit obligations for individual employers are not made

The System also has a defined contribution 401(a) retirement plan available to all employees of the former UMC with at least one year of employment that work more than 1,000 hours in a year Under terms of this plan, the System contributes a percentage (as defined by the plan document) of each participant's annual compensation for those participants employed on December 31 Total pension expense was approximately $1,891 for the four-month period ended June 30, 2013

7. Commitments and Contingencies

Litigation

During the normal course of business, the System may become involved in litigation Management assesses the probable outcome of unresolved litigation and records estimated settlements After consultation with legal counsel, management believes that any such matters will be resolved without material adverse impact to the consolidated financial position or results of operations of the System

(Dollars in Thousands)

7. Commitments and Contingencies (continued)

Operating Lease and Service Agreements

Future minimum annual rental payments under noncancelable operating lease and service agreements as of June 30, 2013, are as follows

2014	$ 30,500
2015	17,986
2016	11,030
2017	6,669
2018	3,763
Thereafter	14,959
	$ 84,907

Total rental expense, which includes amounts applicable to short-term leases, were $52,455 and $24,453 for the year ended June 30, 2013 and the six-month period ended June 30, 2012, respectively

The System, in conjunction with other medical center institutions, is contractually obligated to purchase services from two organizations owned and operated by the Medical Center Commission (a public agency), which provide laundry service and steam and chilled water service to certain operations and other institutions Payments made by the System to the two organizations are included in operating expenses as Purchased Services in the accompanying consolidated statements of operations and changes in net assets and amounted to the following, for the year ended June 30, 2013, and for the six-month period ended June 30, 2012

	2013	2012
Laundry service	**$ 2,663**	$ 1,167
Steam and chilled water service	**3,818**	1,365
	$ 6,481	$ 2,532

(Dollars in Thousands)

7. Commitments and Contingencies (continued)

The System leases office space to various lessees in medical office buildings and parking lots under operating leases The rental income from these leases are $8,213 and $4,286 for the year ended June 30, 2013 and the six-month period ended June 30, 2012, respectively, and are included in other revenue in the accompanying consolidated statements of operations and changes in net assets

The net book value of the leased property, including property that is currently being renovated for future leasing activities, was $120,667 and $72,935 at June 30, 2013 and 2012, respectively The following is a schedule by years of minimum future rentals receivable under existing noncancelable operating leases as of June 30, 2013

2014	$	7,747
2015		5,282
2016		3,632
2017		2,034
2018		1,343
Thereafter		904
Total minimum future rentals	$	20,942

8. Medical Malpractice Self-Insurance

First Initiatives Insurance, Ltd (FIIL), a wholly owned, captive insurance subsidiary of CHI, underwrites the property and casualty risks of CHI The System participates in FIIL's comprehensive professional, employment practices, general liability and workers' compensation coverage to cover substantially all of the System's related risk Coverage is provided by FIIL either on a directly written basis or through reinsurance relationships with commercial carriers In addition, CHI purchases excess insurance from commercial carriers These amounts, including actuarial estimates for incurred but not reported claims, are assessed to all participants

(Dollars in Thousands)

8. Medical Malpractice Self-Insurance (continued)

Amounts paid by the System for professional, employment practices, and general liability coverage were $21,959 and $9,683 for the year ended June 30, 2013 and for the six-month period ended June 30, 2012, respectively, and are included in insurance expense in the accompanying consolidated statements of operations and changes in net assets Amounts paid by the System for workers' compensation coverage were $6,444 and $2,327 for the year ended June 30, 2013 and for the six-month period ended June 30, 2012, respectively, and are included in personnel expense in the accompanying consolidated statements of operations and changes in net assets The estimated liability for professional liability and workers' compensation claims incurred but not reported (including legal costs) as of June 30, 2013 and 2012 is $116,806 and $84,322, respectively, and is included in self-insured reserves and claims along with a corresponding long-term insurance receivable within long-term assets in the accompanying consolidated balance sheets

9. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of who are local residents and are insured under third-party agreements The mix of net receivables from patients and third-party payors at June 30, 2013 and 2012 was as follows

	2013	2012
Medicare	**28%**	34%
Medicaid	**23**	15
Anthem Blue Cross	**8**	18
Other third-party payors	**37**	31
Private payors	**4**	2
	100%	100%

(Dollars in Thousands)

10. Fair Values of Financial Instruments

The following table presents the financial instruments at fair value as of June 30, aggregated by level in the hierarchy defined in Note 1

	June 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Assets				
Repurchase agreements	**$ –**	**$ 7,540**	**$ –**	**$ 7,540**
Cash and cash equivalents	**9,489**	**17,601**	**–**	**27,090**
Common stocks				
Large cap core	**422**	**–**	**–**	**422**
Mid cap	**7,866**	**–**	**–**	**7,866**
Small cap	**118**	**–**	**–**	**118**
Mutual funds				
Large cap value	**892**	**–**	**–**	**892**
Small cap	**189**	**–**	**–**	**189**
Real estate mutual funds	**–**	**140**	**–**	**140**
Fixed income mutual funds	**2,876**	**–**	**–**	**2,876**
Foreign bonds	**–**	**384**	**–**	**384**
U S government obligations	**366**	**–**	**–**	**366**
Other investments	**–**	**2,750**	**–**	**2,750**
Total assets at fair value	**$ 22,218**	**$ 28,415**	**$ –**	**$ 50,633**

(Dollars in Thousands)

10. Fair Values of Financial Instruments (continued)

	June 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Assets				
Repurchase agreements	$ –	$ 29,300	$ –	$ 29,300
Cash and cash equivalents	7,826	–	–	7,826
Common stocks				
Large cap core	415	–	–	415
Mid cap	1,382	–	–	1,382
Large cap value	94	–	–	94
Mutual funds				
Large cap core	123	–	–	123
Large cap growth	240	–	–	240
Large cap value	196	–	–	196
Small cap	425	–	–	425
Real estate mutual funds	–	100	–	100
Fixed income mutual funds	2,109	–	–	2,109
Foreign bonds	–	350	–	350
U S government obligations	31	–	–	31
Other investments	–	876	–	876
Total assets at fair value	$ 12,841	$ 30,626	$ –	$ 43,467

The following methods and assumptions were used by the System in estimating its fair value disclosures for financial instruments

- **Repurchase agreements** The value is based upon quoted market prices of U S government agency securities in less active markets at June 30, 2013 and 2012, which have been placed in Level 2

- **Cash and cash equivalents and certificates of deposit** The value is based upon the cash held with local banks and money market funds that carry a constant value of $1 per share, which have been placed in Level 1 and Level 2

- **Common stocks** The value is obtained from prices quoted in the active market, which represents the fair value of the securities, which have been placed in Level 1

10. Fair Values of Financial Instruments (continued)

- **Mutual funds** The value is based upon quoted market prices that are available in an active market at June 30, 2013 and 2012, placing these securities in Level 1

- **Real estate mutual funds** The value is based upon quoted market prices that are available in an active market at June 30, 2013 and 2012 Since more than half of the fund's investments are categorized as Level 2, the investment has been classified as Level 2

- **Foreign bonds** Values are based upon quoted prices in less active, dealer or broker markets The values are obtained from third-party pricing services, and they have been placed in Level 2

- **U.S. government obligations** U S government securities are valued using quoted market prices in active markets and have been placed in Level 1

- **Other investments** The majority of these investments are with local community foundations, which provide values based upon underlying values of investment held by the particular organization These investments have been placed in Level 2

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values Furthermore, while the System 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

(Dollars in Thousands)

10. Fair Values of Financial Instruments (continued)

The carrying amounts of the System's financial instruments at June 30, are as follows

	2013	2012
Cash and cash equivalents	**$ 72,720**	$ 29,254
Repurchase agreements	**7,540**	29,300
	$ 80,260	$ 58,554
Investments and assets limited as to use		
Cash and cash equivalents	**$ 27,090**	$ 7,826
Common stocks	**8,406**	1,891
Interest in CHI Operating Investment Program		
Cash and cash equivalents	**–**	17,852
Equity investments	**327,197**	312,130
Fixed income investments	**318,794**	306,256
Equity mutual funds	**1,081**	984
Fixed income mutual funds	**2,876**	2,109
Real estate mutual funds	**140**	100
Foreign bonds	**384**	350
U S government obligations	**366**	31
Other investments	**2,750**	876
Other assets	**8,815**	8,939
Hedge funds and private equity	**466**	14,598
	$ 698,365	$ 673,942

The Program asset allocation at June 30, 2013 and 2012 are as follows

	2013	2012
Cash and cash equivalents	**4%**	1%
Marketable debt securities	**46**	35
Marketable equity securities	**48**	46
Alternative investments	**2**	18
	100%	100%

10. Fair Values of Financial Instruments (continued)

The CHI Investment Committee of the Board of Stewardship Trustees (CHI Investment Committee) is responsible for determining asset allocations among cash and cash equivalents, marketable debt securities, marketable equity securities and alternative investments Alternative investments consist of hedge funds, private equity funds, and other securities organized as limited liability companies and partnerships At least annually, the CHI Investment Committee reviews targeted allocations and, if necessary, makes adjustments to targeted asset allocations

Investments held in the Program are represented by pool units valued monthly under a custodian accounting system Investment income from the Program, including dividend and interest income (net of expense), net realized gains on investments, and the net change in unrealized (losses) gains on investments, is distributed to participants based on the earnings per pool unit Gains or losses are realized by participants when pool units are sold, representing the difference between the cost basis and the market value of the pool units sold The value of the assets held is an allocation of the underlying carrying value of the assets in the Program, based upon pool units held by the participants

The carrying value of cash and cash equivalents, marketable equity securities, and marketable debt securities included in the Program, substantially all of which are traded on national exchanges and over-the-counter markets, is based on the last reported sales price on the last business day of the fiscal year

The System's non-financial assets and liabilities not permitted or required to be measured at fair value on a recurring basis typically relate to assets and liabilities acquired in a business combination, long-lived assets held and used and intangible assets The System is required to provide additional disclosures about fair value measurements as part of the consolidated financial statements for each major category of assets and liabilities measured at fair value on a non-recurring basis In general, non-recurring fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities, which generally are not applicable to non-financial assets and liabilities Fair values determined by Level 2 inputs utilize data points that are observable, such as definitive sales agreements, appraisals or established market values of comparable assets Fair values determined by Level 3 inputs are unobservable data points for the asset or liability and include situations where there is little, if any, market activity for the asset or liability, such as internal estimates of future cash flows

10. Fair Values of Financial Instruments (continued)

Following is the summary of the inputs and valuation techniques used for valuing Level 2 and Level 3 non-financial assets and liabilities acquired in business combinations

Non-financial Assets and Liabilities	Input	Valuation Technique
Current assets	Estimate of replacement cost	Cost
Investments (Level 2)	Matrix/Broker dealer	Market/Income
Investments (Level 3)	NAV	Market/Income
Property and equipment, net	Discounted cash flows	Income
Investment in unconsolidated organizations	Discounted cash flows	Income
Other	Discounted cash flows	Income
Current liabilities	Estimate of replacement cost	Cost
Liability for retirement plans	Discounted cash flows	Income
Long-term debt	Discounted cash flows	Income
Other liabilities	Estimate of replacement cost	Cost
Acquisition consideration liability	Discounted cash flows	Income

(Dollars in Thousands)

10. Fair Values of Financial Instruments (continued)

Effective March 1, 2013, the System acquired UMC (Note 1) in a business combination using the purchase method of accounting guidance, ASU No 2011-04, *Fair Value Measurements* (Topic 820), *Amendments to Achieve Common Fair Value Measurement and Disclosures Requirements in U.S. GAAP and IFRSs*, and ASC 958, *Not-for-Profit Mergers and Acquisitions*, which requires the acquired assets and liabilities to be initially recorded at fair value (non-recurring) The following table presents the acquired assets and liabilities of UMC as of March 1, 2013 and indicates the fair value hierarchy of the valuation techniques the System utilized to determine such estimated fair values

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Current assets	$ 147,375	$ –	$ –	$ 147,375
Investments	–	40,603	–	40,603
Property and equipment, net	–	176,004	–	176,004
Goodwill	–	-	53,178	53,178
Other	–	9,368	–	9,368
Total assets	$ 147,375	$ 225,975	$ 53,178	$ 426,528
Current liabilities	$ –	$ 76,202	$ –	$ 76,202
Long-term debt and capital leases	–	122,821	–	122,821
Acquisition consideration liability		–	217,709	217,709
Other liabilities	–	9,796	–	9,796
Total liabilities	$ –	$ 208,819	$ 217,709	$ 426,528

(Dollars in Thousands)

10. Fair Values of Financial Instruments (continued)

Effective January 1, 2012, the System acquired JHSMH (Note 1) in a business combination using the purchase method of accounting guidance, ASU No 2011-04, *Fair Value Measurements* (Topic 820), *Amendments to Achieve Common Fair Value Measurement and Disclosures Requirements in U.S. GAAP and IFRSs*, and ASC 958, *Not-for-Profit Mergers and Acquisitions*, which requires the acquired assets and liabilities to be initially recorded at fair value (non-recurring) The following table presents the acquired assets and liabilities of JHSMH as of January 1, 2012 and indicates the fair value hierarchy of the valuation techniques the System utilized to determine such estimated fair values

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Current assets	$ 41,915	$ 150,484	$ –	$ 192,399
Investments	190,722	99,456	19,838	310,016
Property and equipment, net	–	451,662	–	451,662
Investment in unconsolidated organization	–	5,290	–	5,290
Other	–	12,040	–	12,040
Total assets	$ 232,637	$ 718,932	$ 19,838	$ 971,407
Current liabilities	$ –	$ 150,795	$ –	$ 150,795
Liability for retirement plans	–	53,208	–	53,208
Long-term debt	–	404,050	–	404,050
Other liabilities	–	34,251	–	34,251
Net assets	–	329,103	–	329,103
Total liabilities	$ –	$ 971,407	$ –	$ 971,407

(Dollars in Thousands)

11. Income Taxes

Most of the income received by the System and certain affiliates is exempt from taxation under Section 501(a) of the IRC Some of its subsidiaries are taxable entities, and some of the income received by otherwise exempt entities, are subject to taxation as unrelated business income The System files federal income tax returns as well as income tax returns in Kentucky and Indiana

ASC 740, *Income Taxes*, clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return ASC 740 also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure, and transition Management has done an analysis and determined that no amount needed to be recorded related to ASC 740 at June 30, 2013 and 2012

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets include donor-restricted funds, which can only be expended for the designated purpose Also included is the cash surrender value of life insurance and pledges receivable, which cannot be expended until received At June 30, 2013 and 2012, temporarily restricted net assets include the following

	2013	2012
Funds restricted for		
Health care programs	**$ 2,952**	$ 2,430
Capital expenditures	**7,215**	7,263
Research and education	**4,315**	3,226
Other	**2,862**	1,904
	$ 17,344	$ 14,823

The System's endowed funds consist of individual donor-restricted funds established for education, research, and a variety of other purposes Net assets associated with endowment funds are classified and reported based on donor-imposed restrictions The System's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary

(Dollars in Thousands)

12. Temporarily and Permanently Restricted Net Assets (continued)

As a result of this interpretation, the System classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard for expenditure prescribed by UPMIFA

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2012	$ 1,309	$ 9,545	$ 10,854
Investment return	405	190	595
Contributions	4	8	12
Change in allowance estimate for doubtful restricted pledges	–	(17)	(17)
Appropriation of endowment assets for expenditure	(111)	–	(111)
Endowment net assets, June 30, 2013	$ 1,607	$ 9,726	$ 11,333
Endowment net assets, July 1, 2012	$ 1,607	$ 9,726	$ 11,333
Investment return	773	963	1,736
Contributions	92	463	555
Appropriation of endowment assets for expenditure	(348)	–	(348)
Endowment net assets, June 30, 2013	$ 2,124	$ 11,152	$ 13,276

13. Related-Party Transactions

In addition to the other related party transactions disclosures in these notes, the System recognized expenses of $138,510 and $40,200 for the year ended June 30, 2013 and the six-month period ended June 30, 2012, respectively, related to overhead allocations from the CHI National Office These overhead allocations are reflected as other expenses in the accompanying consolidated statements of operations and changes in net assets The System also made net contributions of $5,401 and $3,374 to the Capital Resource Pool during the year ended June 30, 2013 and the six-month period ended June 30, 2012, respectively These contributions are recorded as direct reductions to unrestricted net assets The System participates in the CHI cash management program At June 30, 2013, amounts payable to CHI under the cash management program were approximately $77 million and are included in accounts payable and accrued expenses

CHI arranges for comprehensive healthcare services for KentuckyOne Health employees through its self-insured medical plan CHI estimates employee premiums on an annual basis with the assistance of an independent actuary Under certain circumstances, the KentuckyOne Health may withdraw from the plan without additional costs incurred Employee benefits expense on the consolidated statements of operations and changes in net assets includes $77,865 and $23,152 for the year ended June 30, 2013 and the six-month period ended June 30, 2012, respectively, for premiums paid to CHI for the self-insured medical plan

The System leases substantially all the buildings and land from JHFE and CHI for rent of one dollar per year for each lease under long-term leases which expire December 31, 2110 Under applicable accounting guidance, the buildings and land are reflected on the consolidated financial statements of the System

14. Subsequent Events

The System has evaluated subsequent events through October 28, 2013, which is the date the consolidated financial statements were issued and made publicly available

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