NEW ISSUE **BOOK-ENTRY ONLY**

Ratings†

$1,500,000,000
CATHOLIC HEALTH INITIATIVES
Taxable Bonds
Series 2012

$250,000,000	**1.600% Bonds due November 1, 2017**	**Price: 99.971%**	**Yield: 1.606%**	**CUSIP# 14916RAB0**
$500,000,000	**2.950% Bonds due November 1, 2022**	**Price: 99.734%**	**Yield: 2.981%**	**CUSIP# 14916RAC8**
$750,000,000	**4.350% Bonds due November 1, 2042**	**Price: 99.787%**	**Yield: 4.363%**	**CUSIP# 14916RAD6**

Dated: Date of Issue **Interest Payable: May 1 and November 1**

The Catholic Health Initiatives Taxable Bonds, Series 2012 (the "Bonds") are being issued as fixed rate bonds in the amounts and with the maturity dates shown above. The Bonds are issuable initially as fully registered bonds in denominations of $1,000 or any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as Securities Depository for the Bonds, and individual purchases of the Bonds will be made in book-entry form only, all as described herein. So long as Cede & Co. is the registered owner of any of the Bonds, principal or Make-Whole Redemption Price (as defined herein) of, and interest on, the Bonds will be payable by Wells Fargo Bank, National Association, as bond trustee (the "Bond Trustee") to DTC, which, in turn, is responsible for remitting such principal or Make-Whole Redemption Price and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds, as described in this Offering Memorandum under the heading "BOOK-ENTRY SYSTEM" herein.

The Bonds are subject to optional and mandatory sinking fund redemption prior to their respective stated maturities. See "THE BONDS – Redemption" herein.

The Bonds are general obligations of Catholic Health Initiatives, a Colorado nonprofit corporation (the "Corporation"), secured under the provisions of the Bond Indenture, as described herein, and payable from payments made by the Corporation under the Bond Indenture. The obligation of the Corporation to make payments under the Bond Indenture is evidenced and secured by a Series 2012 Obligation issued under the Capital Obligation Document described in this Offering Memorandum. Payments on the Series 2012 Obligation are required to be in an amount sufficient to pay when due the principal or Make-Whole Redemption Price of, and interest on the Bonds.

Interest on, and gain, if any, on the sale of the Bonds are not excludable from gross income for federal, state or local income tax purposes. See "CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS" herein.

This cover page contains information for general reference only. It is not intended as a summary of this transaction. Investors are advised to read the entire Offering Memorandum to obtain information essential to making an informed investment decision.

The Bonds are offered when, as and if received by the Underwriters, subject to prior sale and to the approval of legality by the counsel described under "APPROVAL OF LEGALITY" herein. It is expected that the Bonds in definitive form will be available for delivery to The Depository Trust Company in New York, New York, on or about October 31, 2012.

J. P. MORGAN **MORGAN STANLEY**

October 25, 2012

† See "RATINGS" herein.

CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the Underwriters or the Corporation and are included solely for the convenience of the holders of the Bonds. Neither the Underwriters nor the Corporation is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above.

This Offering Memorandum does not constitute an offer to sell the Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, salesman or any other person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Bonds and, if given or made, such information or representation must not be relied upon.

The information set forth herein under "BOOK-ENTRY SYSTEM" herein has been furnished by The Depository Trust Company. All other information set forth herein has been obtained from the Corporation and the CHI Credit Group Members and other sources identified herein that are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum, nor any sale made hereunder, shall under any circumstances create any implication that there has been no change in the affairs of The Depository Trust Company or the Corporation or the CHI Credit Group Members since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Offering Memorandum. The Underwriters have reviewed the information in this Offering Memorandum in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Bonds have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), and are being issued in reliance on an exemption under Section 3(a)(4) of the Securities Act. The Bonds are not exempt in every jurisdiction in the United States; some jurisdictions' securities laws (the "blue sky laws") may require a filing and a fee to secure the Bonds' exemption from registration.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Bonds, or determined that this Offering Memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

Caution Regarding Forward-Looking Statements. This Offering Memorandum contains forward-looking statements that involve risks and uncertainties. In some cases you can identify forward-looking statements by terms such as "plan," "expect," "estimate," "budget," or similar expressions intended to identify forward-looking statements. Such forward-looking statements include but are not limited to certain statements contained in the information under the caption "BONDHOLDERS' RISKS" in the forepart of this Offering Memorandum and the statements contained in **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP." These statements reflect the current views of the Corporation with respect to future events and are based on assumptions and subject to risks and uncertainties. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. The Corporation undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or other information. In light of these risks, results could differ materially from those stated, implied or inferred from the forward-looking statements contained in this Offering Memorandum.

INFORMATION CONCERNING OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES

Notice to Prospective Investors Located in Australia

Any offer of Bonds in connection with this notice will not be made by way of a disclosure document under Part 6D of the Corporations Act (CTH) (the "Act").

Neither the Corporation nor the underwriters is required to provide you with a prospectus or other disclosure document for the issue of securities because of the application of specific exemptions from the requirements for disclosure set out in Section 708 of the Act. In particular, this notice is being provided to you on the basis that:

1. Any offer in connection with this notice is a personal offer within the meaning of Section 708(2) of the Act, and that offer will not result in any breach referred to in that section;

2. Section 708(8) of the Act applies and you are a sophisticated investor in accordance with the terms of that Section;

3. You are an experienced investor within the meaning of s708(10) of the Act; or

4. You are a professional investor in accordance with Section 708(11) of the Act.

Any documents provided in connection with this notice are furnished solely for information purposes only and may not be reproduced or redistributed to any other persons except with our prior written consent. The documents are strictly confidential.

This notice does not constitute an offer or invitation to subscribe for or to purchase any of the Bonds and neither this notice nor anything contained in it will form the basis of any contract or commitment on the part of the Corporation or underwriters to issue or transfer bonds to any person.

Notice to Prospective Investors in the Canadian Provinces of British Columbia, Ontario and Québec

The offering of the Bonds in Canada is being made in the Provinces of British Columbia, Ontario and Québec (each, a "Canadian Jurisdiction" and collectively, the "Canadian Jurisdictions") pursuant to exemptions from the prospectus requirements of applicable securities laws. The Bonds will be offered to "accredited investors" in the Canadian Jurisdictions pursuant to section 2.3 (the "Accredited Investor Exemption") of National Instrument 45-106 — Prospectus and Registration Exemptions of the Canadian Securities Administrators ("NI 45-106"). Under the Accredited Investor Exemption, a subscriber or any principal on whose behalf the subscriber is acting as agent (a "Canadian Purchaser") must qualify as an "accredited investor", as such term is defined in NI 45-106. All Canadian Purchasers of the Bonds will be required to execute a subscription agreement which will contain representations, warranties, covenants and acknowledgments of the Canadian Purchaser to establish the availability of such exemption and to ensure compliance with applicable Canadian securities laws.

This Offering Memorandum constitutes an offering of the Bonds only in those jurisdictions and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell the Bonds. This Offering Memorandum is not, and should not under any circumstances be construed as, an advertisement or a public offering of the Bonds in Canada. No securities commission or similar securities regulatory authority in Canada has reviewed or in any way passed upon this Offering Memorandum or the merits of the Bonds and any representation to the contrary is an offence under applicable Canadian securities laws.

The offering is being made exclusively through this Offering Memorandum and not through any advertisement of the Bonds in any printed media of general and regular paid circulation, radio or television, electronic media or any other form of advertising. No person has been authorized to give any information or to make any representation other than those contained in this Offering Memorandum and any decision to purchase the Bonds should be made solely based on the information contained in this Offering Memorandum.

Resale Restrictions

The Bonds acquired by Canadian Purchasers hereunder may not be sold, transferred or otherwise disposed of in any manner unless such sale, transfer or disposition complies with the resale restrictions of the securities laws of the Canadian Jurisdictions. Pursuant to applicable Canadian provincial and territorial securities laws, the Bonds acquired by a Canadian Purchaser hereunder will be subject to restrictions on resale until such time as:

(a) the appropriate "hold periods" have been satisfied and such purchaser has complied with other applicable requirements, including the filing of appropriate reports pursuant to applicable securities legislation;

(b) a further statutory exemption may be relied upon by such purchaser; or

(c) an appropriate discretionary order is obtained pursuant to applicable securities laws.

As the Corporation is not a reporting issuer in any province or territory of Canada, the applicable hold period for the Bonds may never expire, and if no further statutory exemption may be relied upon and if no discretionary order is obtained, this could result in a Canadian Purchaser having to hold the Bonds for an indefinite period of time. Each certificate representing the Bonds issued to Canadian Purchasers will bear a legend indicating that the resale of the Bonds is restricted.

The foregoing is a summary only of applicable resale restrictions and is subject to the express provisions of applicable securities legislation. All Canadian Purchasers should consult with their own legal advisors to determine the extent of the applicable hold period and the possibilities of utilizing any further statutory exemptions or the obtaining of a discretionary order.

Indirect Collection of Personal Information

By purchasing the Bonds, a Canadian Purchaser acknowledges that its name, residential address, telephone number and other specified information may be disclosed to Canadian securities regulatory authorities and become available to the public in accordance with the requirements of applicable Canadian laws. By purchasing the Bonds, a Canadian Purchaser consents to the disclosure of such information.

By purchasing the Bonds, a Canadian Purchaser that is resident in the Province of Ontario acknowledges that it has been notified by the Corporation: (a) of the requirement to deliver to the Ontario Securities Commission (the "OSC") the full name, residential address and telephone number of such purchaser, the number and type of securities purchased, the total purchase price, the exemption relied upon and the date of distribution; (b) that this information is being collected indirectly by the OSC under the authority granted to it in applicable securities legislation; (c) that this information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and (d) that the Administrative Support Clerk can be contacted at the Ontario Securities Commission, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8, or at (416) 593-3684, and can answer any questions about the OSC's indirect collection of this information.

Rights of Actions for Damages or Rescission

Securities legislation in certain of the provinces of Canada provides certain purchasers with, or requires certain purchasers to be provided with, in addition to any other rights they may have at law, a right of action for rescission or damages or both, against the Corporation, and in certain cases, other persons, where this Offering Memorandum and any amendment to it and, in certain cases, advertising and sales literature used in connection therewith, contains a misrepresentation. Where used herein, the term "misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading or false in light of the circumstances in which it was made, and the expression "material fact" means a fact that significantly affects or would reasonably be expected to have a significant effect on the market price or value of the Bonds. These remedies or notice with respect thereto must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by applicable securities legislation. The following is a summary of the rights of rescission or damages, or both, available to purchasers under the securities legislation of certain of the provinces of Canada. Each purchaser should refer to the provisions of applicable securities legislation for the particulars of these rights or consult with a legal advisor.

Rights of Actions for Damages or Rescission— Ontario Purchasers

The Securities Act (Ontario) (the "Ontario Act") provides Canadian Purchasers resident in the Province of Ontario with, in addition to any other right they may have at law, rights of rescission or damages, or both, where this Offering Memorandum and any amendment to it contains a misrepresentation (as defined below). However, such rights must be exercised by the purchasers within the time limits prescribed by the Ontario Act. Canadian Purchasers resident in the Province of Ontario should consult with a legal advisor or refer to the applicable provisions of the Ontario Act, found in section 130.1, for the complete text of these rights, the defences available to the Corporation and others and the time limits during which these rights must be exercised.

The rights of action summarized below shall be available to each Canadian Purchaser of the Bonds resident in Ontario and are in addition to and without derogation from any other right or remedy available at law to such purchaser and are intended to correspond to the rights against an issuer of securities provided in the Ontario Act and are subject to the defenses contained therein. Where used in this section, "misrepresentation" means an untrue statement of material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

In the event that this Offering Memorandum, together with any amendments hereto, is delivered to a Canadian Purchaser resident in Ontario and contains a misrepresentation, such purchaser shall be deemed to have relied upon such misrepresentation and has, subject as hereinafter provided, a statutory right of action against the Corporation either for damages or alternatively, while still the owner of any of the Bonds, rescission, provided that:

(a) an action is commenced to enforce such right (i) in the case of an action for rescission, within 180 days after the date of purchase, or (ii) in the case of an action for damages, within the earlier of 180 days following the date such purchaser first had knowledge of the misrepresentation and three years after the date of the purchase;

(b) a person or company will not be liable if it proves that such purchaser purchased the Bonds with knowledge of the misrepresentation;

(c) in the case of an action for damages, the Corporation will not be liable for all or any portion of the damages that it proves does not represent the depreciation in value of the Bonds as a result of the misrepresentation relied upon;

(d) in no case will the amount recoverable in any action exceed the price at which the Bonds were sold to such purchaser; and

(e) if such purchaser elects to exercise the right of rescission, it will have no right of action for damages.

Notwithstanding the foregoing, a Canadian Purchaser resident in the Province of Ontario will not have the rights referred to above if such purchaser is:

(A) a Canadian financial institution, meaning either:

(i) an association governed by the *Cooperative Credit Associations Act* (Canada) or a central cooperative credit society for which an order has been made under section 473(1) of that Act; or

(ii) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services corporation, or league that, in each case, is authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction in Canada;

(B) a Schedule III bank, meaning an authorized foreign bank named in Schedule III of the Bank Act (Canada);

(C) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or

(D) a subsidiary of any person referred to in paragraphs (A), (B) or (C), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of the subsidiary.

The foregoing summary is subject to the express provisions of the Ontario Act and the respective regulations and rules thereunder. Each Canadian Purchaser resident in Ontario should refer to the complete text of such provisions or consult with a legal advisor.

Rights of Action for Damages or Rescission – Québec Purchasers

By purchasing the Bonds hereunder, purchasers in Québec are not entitled to the statutory rights described above. In consideration for their purchase of the Bonds and upon accepting a confirmation in respect thereof, these purchasers are hereby granted a contractual right of action for damages or rescission that is the same as the statutory right of action provided to the purchasers under this Offering Memorandum who are resident in Ontario.

General

The rights discussed above are in addition to and without derogation from any other rights or remedies available at law to Canadian Purchasers and are intended to correspond to the provisions of the relevant securities legislation and are subject to the defences contained therein. The foregoing summaries are subject to the express provisions of the applicable securities legislation in each of the foregoing provinces and the regulations, rules and policy statements thereunder and reference is made thereto for the complete text of such provisions. Canadian Purchasers should refer to the applicable provisions of the securities legislation of their province of residence for the particulars of these rights and consult with their own legal advisers prior to investing in the Bonds.

Language of Documents

Upon receipt of this Offering Memorandum, the purchaser hereby confirms that he, she or it has expressly requested that all documents evidencing or relating in any way to the offer and/or sale of the Bonds be drawn up in the English language only. Par la réception de ce document, l'acheteur confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à l'offre ou à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

Notice to Prospective Investors in the People's Republic of China

This Offering Memorandum has not been and will not be circulated or distributed in the People's Republic of China ("PRC"), and the Bonds may not be offered or sold, and will not be offered or sold to any person for re-offering or resale, directly or indirectly, to any residents of the PRC except pursuant to applicable laws and regulations of the PRC. For the purposes of this paragraph, the PRC does not include Taiwan, Hong Kong or Macau.

Notice to Investors in the European Economic Area

This Offering Memorandum is not a prospectus for the purposes of regulation 809/2004 of the European commission. It has been prepared on the basis that all offers of the Bonds will be made pursuant to an exemption under directive 2003/7 1/EC, as implemented in member states of the European Economic Area ("EEA"), from the requirement to produce a prospectus for such offers. This Offering Memorandum is only addressed to and directed at persons in member states of the European Economic Area who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/7 1/EC) ("Qualified Investors"). This Offering Memorandum must not be acted on or relied on in any such member state of the European Economic Area by persons who are not Qualified Investors. Any investment or investment activity to which this Offering Memorandum relates is available, in any member state of the European Economic Area other than the United Kingdom, only to Qualified Investors, and will be engaged in only with such persons.

Notice to Residents of France

The Bonds have not been offered or sold and will not be offered or sold, directly or indirectly, by way of a public offer in France (Offre au Public, as defined in Article l. 411-1, of the Code Monétaire et Financier). The Bonds may only be subscribed for or held by qualified investors (Investisseurs Qualifiés) solely for their own account, as provided by Articles l. 411 2, d. 411-1, d. 411-2, d. 734-1, d. 744-1, d. 754-1 and d. 764-1 of the Code Monétaire et Financier. Thus, the Bonds acquired shall not be distributed directly or indirectly to the public otherwise than in accordance with Articles l. 411-1, l. 411-2, l. 412-1 and l. 621-8 to l. 621-8-3 of the Code Monétaire et Financier.

This Offering Memorandum is furnished to potential qualified investors solely for their information and may not be reproduced or redistributed to any other person. It is strictly confidential and is solely destined for qualified investors to which it was initially supplied. This Offering Memorandum does not constitute an offer or invitation to subscribe for or to purchase any of the Bonds and neither this Offering Memorandum nor anything herein shall form the basis of any contract or commitment whatsoever.

This Offering Memorandum or any other material relating to the Bonds may not be distributed to the public in France or used in connection with any offer for subscription or sale of the Bonds in France other than in accordance with Articles l. 411-2, d. 411-1, d. 411-2, d. 734-1, d. 744-1, d. 754-1 and d. 764-1 of the Code Monétaire et Financier. This Offering Memorandum has not been submitted and no prospectus will be submitted to the "Autorité des Marchés Financiers" for approval. Any contact with potential qualified investors in France does not and will not constitute financial and banking solicitation (Démarchage Bancaire et Financier) as defined in Articles l. 341-1 et seq. of the Code Monétaire et Financier.

Notice to Prospective Investors in Germany

The Bonds have not been, will not be and may not be offered, promoted or sold, either directly or indirectly, in Germany by way of an offer to the public within the meaning of Section 2 No. 4 of the Securities Prospectus Act (Wertpapierprospektgesetz). The Bonds may only be offered to, sold to, subscribed for or held by qualified investors within the meaning of Section 2 No. 6 of the Securities Prospectus Act or, if applicable, any person in Germany whose professional or commercial activities involve them in the acquiring or disposing of investments within the meaning of Section 2 No. 4 of the Investment of Assets Act (Vermoegensanlagegesetz) either as principal or agent, or to investors who acquire the security for a total consideration of at least the equivalent of EUR 200,000 per investor for each separate offer.

This Offering Memorandum does not constitute an offer to subscribe for or buy any of the Bonds offered hereby to any person to whom it is unlawful to make such offer or solicitation in Germany. This Offering Memorandum is given to potential investors solely for their information and may not be distributed to any other person. It is confidential and solely targeted at the recipients, i.e. qualified investors within the meaning of Section 2 No. 6 of the Securities Prospectus Act, to which it has been initially supplied.

Notice to Residents of Hong Kong

The Bonds have not been authorized by the Securities and Futures Commission in Hong Kong for public offering in Hong Kong, nor has a copy of this Offering Memorandum been registered with the registrar of companies in Hong Kong.

The Bonds may not be offered or sold by means of any document other than (i) in circumstances which do not constitute, or form part of, an offer to the public within the meaning of the companies ordinance (Cap.32 of the laws of Hong Kong), or (ii) to "Professional Investors" within the meaning of the securities and futures ordinance (Cap.571 of the laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the companies ordinance (Cap.32 of the laws of Hong Kong), and that no advertisement, invitation or document relating to the Bonds may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to securities which are or are intended to be sold or otherwise disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the securities and futures ordinance (Cap. 571 of the laws of Hong Kong) and any rules made thereunder.

Notice to Residents of Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law no. 25 of 1948, as amended, the "FIEL"). The Bonds may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

The primary offering of the Bonds and the solicitation of an offer for acquisition thereof have not been and will not be registered under Paragraph 1, Article 4 of the FIEL. As it is a primary offering, in Japan, the Bonds may only be offered, sold, resold or otherwise transferred, directly or indirectly to, or for the benefit of a Qualified Institutional Investor ("QII") defined in Article 10 of the Cabinet Ordinance concerning definitions under Article 2 of the FIEL (Ordinance no. 14 of 1993, as amended). A person who purchased or otherwise obtained the Bonds cannot resell or otherwise transfer the Bonds in Japan to any person except another QII.

Notice to Prospective Investors in Korea

The Bonds have not been and will not be registered with the Financial Services Commission of Korea for public offering in Korea under the Financial Investments Services and Capital Markets Act of Korea and the decrees and regulations thereunder (the "FSCMA"). None of the Bonds may be offered, sold and delivered directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except as otherwise permitted under the applicable laws and regulations of Korea, including the FSCMA and the Foreign Exchange Transaction Law of Korea and the decrees and regulations thereunder (the "FETL"). Furthermore, the purchaser of the Bonds shall comply with all applicable regulatory requirements (including but not limited to requirements under the FETL) in connection with the purchase of the Bonds.

Each Underwriter will represent and agree that it has not offered, sold or delivered the Bonds directly or indirectly to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea and will not offer, sell or deliver the Bonds directly or indirectly to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea, except as otherwise permitted under the applicable laws and regulations.

Notice to Prospective Investors in Norway

The Bonds have not and will not be offered or sold, directly or indirectly, to any person in Norway, other than to legal and physical persons deemed to be professional investors as further defined in Section 7-1 of the Norwegian Regulation of Securities Trading ("The Regulation") or to any legal or physical person, subject to that the offered Bonds are categorized as an exempted offer, cf. Section 7-4 of the Norwegian Securities Trading Act (the Act").

Professional investors are categorized as:

(i) Legal entities that are deemed to be professional investors without further requirements, cf. Section 7-1 (1) of the Regulation,

(ii) Legal and physical persons that must be registered with the competent authority responsible for inspecting prospectuses in order to be deemed professional investors, cf. Section 7-1 (2) and (3) of the Regulation

An exempted offer is categorized as:

(i) Bonds offered in minimum lots of Eur 100,000 in terms of nominal value or subscription price.

This Offering Memorandum is furnished to potential investors solely for their information and may not be reproduced or redistributed to any other person. It is strictly confidential and is solely destined for persons or institutions to which it was initially supplied. This Offering Memorandum does not constitute an offer or invitation to subscribe for or to purchase any Bonds. Neither this Offering Memorandum nor anything herein shall form the basis of any contract or commitment whatsoever.

This Offering Memorandum has not been submitted to the Oslo Stock Exchange / the Norwegian Financial Supervisory Authority for approval.

Investment services, including offering and subscription of Bonds, can only be made through investment firms authorized by the Financial Supervisory Authority of Norway, cf. The Norwegian Securities Trading Act Chapter 9. The Corporation reserves its rights, at its sole discretion, to reject any subscription made through non-authorized investment firms.

Selling Restrictions for Offer of Bonds in Singapore to Accredited Investors and Institutional Investors

Neither this Offering Memorandum nor any other document or material in connection with any offer of the Bonds has been or will be lodged or registered as a prospectus with the Monetary Authority of Singapore (MAS) under the Securities and Futures Act (Cap. 289) of Singapore (SFA). Accordingly, MAS assumes no responsibility for the contents of this Offering Memorandum. This Offering Memorandum is not a prospectus as defined in the SFA and statutory liability under the SFA in relation to the contents of prospectuses would not apply. The prospective investors should consider carefully whether the investment is suitable for it.

This Offering Memorandum and any other documents or materials in connection with this offer and the Bonds may not be directly or indirectly issued, circulated or distributed, nor may the Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA; (ii) to a Relevant Person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA; (iii) to any person pursuant to the conditions of Section 275(1A) of the SFA; or (iv) otherwise pursuant to, and in accordance with, the conditions of any other applicable provisions of the SFA.

Any subsequent offers in Singapore of Bonds acquired pursuant to an initial offer made in reliance on an exemption under Section 274 of the SFA or Section 275 of the SFA may only be made, pursuant to the requirements of Section 276 of the SFA, for the initial six month period after such acquisition to persons who are Institutional Investors (as defined in Section 4A of the SFA) or to Accredited Investors or relevant persons or to such persons pursuant to an offer referred to under Section 275(1A) of the SFA. Any transfer after such initial six month period in Singapore shall be made, pursuant to the requirements of Section 257 of the SFA, in reliance on any applicable exemption under subdivision (4) of division 1 of part XIII of the SFA.

In addition to the above, pursuant to the requirements of Section 276(3) of the SFA, where the Bonds are acquired pursuant to an offer made in reliance on the exemption under Section 275 of the SFA by a corporation (other than a corporation that is an Accredited Investor (as defined in Section 4A of the SFA)) whose sole business is to hold investments and the entire share capital of which is owned by one or more individuals each of whom is an Accredited Investor (as defined in Section 4A of the SFA), the securities of such corporation shall not be transferred within 6 months after the corporation has acquired the Bonds pursuant to an offer made in reliance on the exemption under Section 275 of the SFA unless that transfer is made only to Institutional Investors (as defined in section 4A of the SFA) or Relevant Persons (as defined in Section 275(2) of the SFA); or arises from an offer referred to in Section 275(1A) of the SFA; or no consideration is or will be given for the transfer; or the transfer is by operation of law. This restriction does not apply to securities previously made in or accompanied by a prospectus and which are of the same class as other securities of a corporation listed on the Singapore Exchange Securities Trading Limited.

Pursuant to the requirements of Section 276(4) of the SFA, where the Bonds are acquired pursuant to an offer made in reliance on the exemption under Section 275 of the SFA for a trust (other than a trust the trustee of which is an Accredited Investor (as defined in Section 4A of the SFA)) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an Accredited Investor (as defined in Section 4A of the

SFA), the beneficiaries' rights and interest (howsoever described) in the trust shall not be transferred within 6 months after the Bonds are acquired for the trust pursuant to an offer made in reliance on the exemption under Section 275 of the SFA unless that transfer is made only to Institutional Investors (as defined in Section 4A of the SFA) or Relevant Persons (as defined in Section 275(2) of the SFA); or arises from an offer that is made on terms that such rights or interest are acquired at a consideration of not less than $200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets; or no consideration is or will be given for the transfer; or the transfer is by operation of law. This restriction does not apply to securities previously made in or accompanied by a prospectus and which are of the same class as other securities of a corporation listed on the Singapore Exchange Securities Trading Limited.

Notice to Prospective Investors in Sweden

This Offering Memorandum has not been, and will not be, registered with or approved by the Swedish Financial Supervisory Authority (Sw. Finansinspektionen). Accordingly, this Offering Memorandum is not intended for and may not be made available to the public in Sweden. Nor may the Bonds otherwise be marketed and offered for sale, other than under circumstances that are deemed not to be an offer to the public in Sweden under the Swedish Financial Instruments Trading Act (1991:980). Notwithstanding the above, if the offer is deemed as an offer to the public in Sweden, please note that the offer is directed solely to qualified investors.

Notice to Prospective Investors in Switzerland

This Offering Memorandum together with any accompanying documents does not constitute an issue prospectus pursuant to Art. 1156 and Art. 652a of the Swiss Federal Code of Obligations. The Bonds may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors. This Offering Memorandum together with any accompanying documents and any other supplement hereto are personal to each offeree and do not constitute an offer to any other person. This Offering Memorandum together with any accompanying documents may only be used by those persons to whom they have been distributed in connection with the offering of the Bonds and may neither be copied nor directly or indirectly be distributed nor be made available to other persons without the express prior written consent of the Corporation.

Notice to Prospective Investors in Taiwan

The offer of the Bonds has not been and will not be registered with the Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations of Taiwan and the Bonds, including any copy of this Offering Memorandum or any other documents relating to the Bonds, may not be offered, sold, delivered or distributed within Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan that requires the prior registration with or approval of the Financial Supervisory Commission of Taiwan. Taiwan investors who subscribe and purchase the Bonds shall comply with all relevant securities, tax and foreign exchange laws and regulations in effect in Taiwan.

Notice to Prospective Investors in the Kingdom of Thailand

Warnings:

The Bonds have not been approved for marketing and sale in the Kingdom of Thailand by the securities and exchange commission of Thailand. Accordingly, the Bonds may not be offered or sold, or this Offering Memorandum or any other documents relating to the offer of the Bonds be distributed, directly or indirectly, in Thailand to any Thai person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the Thai government and regulatory authorities in effect at the relevant time. For this purpose, "Thai person" means any person resident in Thailand, including any corporation or other entity organized under the laws of Thailand.

Nothing in this Offering Memorandum should be read to represent or even suggest that the securities and exchange commission or the office of the securities and exchange commission have recommended investment in the offered Securities or Bonds; nor does this Offering Memorandum contain any assurance in relation to the value or returns on the offered Securities or Bonds; nor has the securities and exchange commission or the office of the securities and exchange commission certified the accuracy and completeness of information contained in the

Offering Memorandum. Prior to making an investment decision, investors should exercise their own judgment when considering information relating to a party issuing securities or Bonds as well as the terms and conditions of the Securities or Bonds, including the suitability of such Securities or Bonds for investment and their relevant risk exposure. The liability for certification of the accuracy and completeness of information contained in this Offering Memorandum is vested in the Offeror of the Securities or Bonds.

If this Offering Memorandum contains any false statements or omits to state any material information which should have been disclosed, the Securities or Bond Holders shall be entitled to claim damages from the Securities or Bond Offeror or the Securities or Bond Owners pursuant to Section 82 and Section 86 of the Securities and Exchange act B.E. 2535 (1992) within one year from the date on which the fact that this Offering Memorandum contained false information becomes known or should have been known, but not exceeding two years from the date this Offering Memorandum was delivered to the bond or securities holders.

Risks and Restrictions:

In respect of investing in Securities or Bonds offered in Thailand by a Foreign Offeror, investors shall be entitled to rights and protections similar in nature to those provided by any foreign jurisdiction to investors making direct investments in the Securities or Bonds offered. Accordingly, investors are strongly encouraged to review and update themselves on the pertinent laws and regulations of the Foreign Offeror's home jurisdiction and of any jurisdiction where the Securities or Bonds of the Foreign Offeror are traded on an exchange.

Notice to Prospective Investors in the United Kingdom

This Offering Memorandum has not been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 ("FSMA") and does not constitute an offer to the public in accordance with the provisions of Section 85 of the FSMA. It is for distribution only to, and is directed solely at, persons who (i) are outside the United Kingdom, (ii) are investment professionals, as such term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order"), (iii) are persons falling within Article 49(2)(a) to (d) of the Financial Promotion Order, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any securities may otherwise be lawfully communicated or caused to be communicated (all such persons together being referred to as "Relevant Persons"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

[THIS PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS

Page

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS
(continued)

Page

SUMMARY OF THE OFFERING

Issuer	Catholic Health Initiatives (the "Corporation")
Securities Offered	\$250,000,000 1.600% Catholic Health Initiatives Taxable Bonds, Series 2012, due November 1, 2017 \$500,000,000 2.950% Catholic Health Initiatives Taxable Bonds, Series 2012, due November 1, 2022 \$750,000,000 4.350% Catholic Health Initiatives Taxable Bonds, Series 2012, due November 1, 2042
Interest Accrual Dates	Interest will accrue from the Date of Issue
Interest Payment Dates	May 1 and November 1 of each year, commencing May 1, 2013
Redemption	The Bonds are subject to optional redemption prior to their respective stated maturities, upon written direction of the Corporation, in whole or in part on any Business Day in such order of maturity as directed by the Corporation, at the Make-Whole Redemption Price, together with accrued interest to the date fixed for redemption, as further described herein. The Bonds are also subject to mandatory sinking fund redemption. See "THE BONDS – Redemption" herein.
Date of Issue	October 31, 2012
Authorized Denominations	\$1,000 and any integral multiple thereof
Form and Depository	The Bonds will be delivered solely in book-entry form through the facilities of DTC.
Use of Proceeds	The Corporation will use proceeds of the Bonds for general corporate purposes consistent with the charitable purposes of the Corporation, including but not limited to strategic acquisitions and partnerships, and to pay costs of issuance relating to the Bonds. See "PLAN OF FINANCE" herein.
Ratings	Moodys: Aa3 (stable outlook) S&P: AA- (stable outlook) Fitch: AA- (stable outlook) For an explanation of the ratings, see "RATINGS" herein.

OFFERING MEMORANDUM

$1,500,000,000
Catholic Health Initiatives
Taxable Bonds
Series 2012

INTRODUCTION

General

This Offering Memorandum, including the cover page, the inside front cover page and immediately succeeding pages and the Appendices hereto (the "Offering Memorandum"), is provided to furnish information with respect to the sale and delivery of $1,500,000,000 of the Catholic Health Initiatives Taxable Bonds, Series 2012 (the "Bonds"). All capitalized terms used in this Offering Memorandum and not otherwise defined herein shall have the same meanings as in the Bond Indenture or the Capital Obligation Document (each defined below), as applicable. See **APPENDIX E** – "SUMMARY OF PRINCIPAL DOCUMENTS – Definitions."

Catholic Health Initiatives, a Colorado nonprofit corporation (the "Corporation"), is a part of the CHI Credit Group that consists of the Corporation and various nonprofit and for profit corporations and other entities that own and operate healthcare facilities and provide healthcare-related services in 19 states. The Corporation is the sole obligor under the Bond Indenture described herein. See **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP" for more information regarding the Corporation and the CHI Credit Group.

The Bonds

The Bonds will be issued pursuant to and secured by a Bond Trust Indenture (the "Bond Indenture"), dated as of October 1, 2012, between the Corporation and Wells Fargo Bank, National Association, as bond trustee (the "Bond Trustee"). Subsequent to the issuance of the Bonds, the Corporation may issue additional bonds, which may be consolidated with the Bonds under a supplemental bond indenture, upon the terms and conditions set forth in the Bond Indenture. See **APPENDIX E** – "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of the Bond Indenture – Additional Bonds."

The Capital Obligation Document

The Bonds are secured under the provisions of the Bond Indenture and payable from payments required to be made by the Corporation under the Bond Indenture and certain other amounts described therein and from all payments made by the Corporation in respect thereof pursuant to the obligation issued (the "Series 2012 Obligation") under the Capital Obligation Document, dated as of November 1, 1997 (as amended and supplemented, the "Capital Obligation Document"), between the Corporation and Wells Fargo Bank, National Association, as trustee (the "CHI Trustee"). Payments on the Series 2012 Obligation are required to be in an amount sufficient to pay when due the principal or Make-Whole Redemption Price of, and interest on, the Bonds. See "SECURITY FOR THE BONDS – The Capital Obligation Document."

Under the Capital Obligation Document, the Corporation is obligated to cause each Participant and Designated Affiliate (subject to contractual and organizational limitations) to pay or otherwise transfer to the Corporation the amounts necessary to make all payments required by all obligations issued under the Capital Obligation Document (collectively, the "Obligations"), including the Series 2012 Obligation, according to their terms when due. See **APPENDIX E** – "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of the Capital Obligation Document – Required Payments." Participants are defined under the Capital Obligation Document to include any entity, the financial statements of which are required, under generally accepted accounting principles, to be consolidated into the financial statements of the Corporation (the "Participants"). Designated Affiliates are defined under the Capital Obligation Document to mean any entity which is so designated by the Corporation (the "Designated Affiliates") and which has entered into an agreement with the Corporation pursuant to which the

Corporation has the power to cause the Designated Affiliate to comply with the Capital Obligation Document while that entity maintains its status as a Designated Affiliate. The Participants and Designated Affiliates are not liable to holders for payment of the Obligations. Participants and Designated Affiliates may be added to and withdrawn from the CHI Credit Group from time to time in accordance with procedures set forth in the Capital Obligation Document. The Corporation, the Participants, the Designated Affiliates and any future Obligated Group Members (as defined below) are referred to in this Offering Memorandum as the "CHI Credit Group," "CHI Credit Group Members" or "Members of the CHI Credit Group," and, each individually, as a "CHI Credit Group Member." See **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP."

The Capital Obligation Document also creates an Obligated Group, the sole Member of which is the Corporation. The Corporation and any future Members of the Obligated Group jointly and severally are obligated under the Capital Obligation Document to make payments on the Obligations according to their terms when due. The Participants and Designated Affiliates are not Members of the Obligated Group. The Corporation and other entities which become jointly and severally liable with the Corporation on Obligations issued under the Capital Obligation Document are referred to herein as the "Obligated Group" or "Obligated Group Members" or "Members of the Obligated Group," and, each individually, as an "Obligated Group Member." Subject to certain conditions, additional Obligated Group Members may be added to the Obligated Group from time to time and will be jointly and severally liable with respect to Obligations Outstanding under the Capital Obligation Document. Additionally, subject to certain conditions set forth in the Capital Obligation Document, the Obligated Group Members may withdraw from the Obligated Group from time to time and be released from all liability with respect to Obligations. See **APPENDIX E** – "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of the Capital Obligation Document – Entrance Into the Obligated Group" and "– Cessation of Status as a Member of the Obligated Group."

The Series 2012 Obligation issued under the Capital Obligation Document to secure the Bonds is not secured by any pledge of, mortgage on or security interest in the Property (including revenues) of the Corporation or any other CHI Credit Group Member. The Capital Obligation Document prohibits liens securing Indebtedness on Property of the CHI Credit Group, except Permitted Encumbrances. See "SECURITY FOR THE BONDS – The Capital Obligation Document – Obligations" and "– Covenants Against Liens on Property; Permitted Senior Indebtedness." See also **APPENDIX E** – "SUMMARY OF PRINCIPAL DOCUMENTS – Definitions – Permitted Encumbrances."

PLAN OF FINANCE

Use of Proceeds of the Bonds

The Corporation intends to use the proceeds of the Bonds (1) for general corporate purposes consistent with the charitable purposes of the Corporation, including but not limited to strategic acquisitions and partnerships, and (2) to pay certain costs relating to the issuance of the Bonds.

Conversion of Series 2009B-1 Bonds to Fixed Rates

On November 8, 2012, the Corporation intends to convert the interest rate on the Colorado Health Facilities Authority Revenue Bonds (Catholic Health Initiatives), Series 2009B-1 (the "Series 2009B-1 Bonds") in the principal amount of $91,465,000 from a long-term rate to fixed rates to maturity.

Substitution of Liquidity Facilities

On or about October 31, 2012 (the "Substitution Date"), the Corporation anticipates: (i) substituting the liquidity facility securing the Colorado Health Facilities Authority Variable Rate Revenue Bonds (Catholic Health Initiatives) Series 2002B (currently outstanding in the principal amount of $46,800,000) with a liquidity facility provided by U.S. Bank National Association, (ii) substituting the liquidity facility securing the Pulaski County, Arkansas Health Facilities Board (St. Vincent Infirmary) Variable Rate Demand Revenue Bonds (Catholic Health

Initiatives) Series 2000B (currently outstanding in the principal amount of $25,700,000) with a liquidity facility provided by U.S. Bank National Association; and (iii) substituting the liquidity facility securing the Saint Mary Hospital Authority Variable Rate Revenue Bonds (Catholic Health Initiatives) Series 2004B (currently outstanding in the principal amount of $52,800,000) with a liquidity facility provided by Wells Fargo Bank, National Association. The Corporation expects that these substitutions will not result in a reduction of the short-term ratings assigned to these bonds, and therefore these bonds will not be subject to mandatory tender on the Substitution Date.

The issuance of the Taxable 2012 Bonds and the conversion of the interest rate on the Series 2009B-1 Bonds to fixed interest rates to maturity are referred to in the **APPENDIX A** as the "Plan of Finance."

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for their complete text and to the Bond Indenture for a more detailed description of the provisions of the Bonds.

General

The Bonds are being issued pursuant to the Bond Indenture in the aggregate principal amounts and with the maturity dates set forth on the cover of this Offering Memorandum. As described below under the caption "BOOK-ENTRY-SYSTEM," when issued, the Bonds will be registered in the name of Cede & Co., as Bondholder and nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC, or its nominee, is the registered owner of all of the Bonds, all payments on the Bonds will be made directly to DTC. The Bonds will be dated their Date of Issue, and shall bear interest from such date at the rates per annum shown on the inside cover page of this Offering Memorandum, payable on each May 1 and November 1, commencing May 1, 2013.

The principal or Make-Whole Redemption Price of the Bonds shall be payable in lawful money of the United States of America at the Principal Corporate Trust Office of the Bond Trustee. Payment of the interest on any Bond shall be made to the person whose name appears on the registration books of the Bond Trustee as the Holder thereof as of the close of business on the Record Date for the applicable Interest Payment Date, except as provided in the next paragraph. Interest will be paid in lawful money of the United States of America by check or draft mailed on each interest payment date to the Holder at the address shown on the Bond Trustee's registration books or, at the option of any owner of at least $1,000,000 in aggregate principal amount of the Bonds, by wire transfer to an account within the United States designated by the Holder and filed with the Bond Trustee for such purpose at least one Business Day prior to the Record Date. As long as the book-entry system is in effect and DTC is the Securities Depository, Cede & Co. (or another nominee as has been specified by DTC) is the Holder.

Any such interest not so punctually paid or duly provided for shall cease to be payable to the Holder on the applicable Record Date and shall be paid to the person in whose name the Bond is registered at the close of business on a Special Record Date for the payment of such defaulted interest. The Special Record Date will be fixed by the Bond Trustee and notice will be given to the Holders by first class mail not less than ten (10) days prior to such Special Record Date.

Interest shall be calculated based on a year of 360 days with twelve 30-day months.

Redemption

Optional Redemption. The Bonds are subject to optional redemption prior to their respective stated maturities, upon written direction of the Corporation, in whole or in part on any Business Day in such order of maturity as directed by the Corporation, at the Make-Whole Redemption Price, together with accrued interest to the date fixed for redemption. As used herein, the Make-Whole Redemption Price means the greater of (1) 100% of the principal amount of any Bonds being redeemed, or (2) the sum of the present values of the remaining scheduled payments of principal and interest on any Bonds being redeemed (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus (i) for Bonds maturing on November 1, 2017, 15 basis points, (ii) for Bonds maturing on November 1, 2022, 20 basis points and (iii) for Bonds maturing on November 1, 2042, 25 basis points. For purposes of this paragraph, the following definitions shall apply:

"Comparable Treasury Issue" means the United States Treasury security or securities selected by a Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Bonds.

"Comparable Treasury Price" means, with respect to any redemption date, the average of the Reference Treasury Dealer Quotations for such redemption date or, if the Designated Investment Banker obtains only one Reference Treasury Dealer Quotation, such Reference Treasury Dealer Quotation.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the Corporation.

"Reference Treasury Dealer" means each of J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC or their respective affiliates which are primary U.S. government securities dealers, and their respective successors; provided that if J.P. Morgan Securities LLC or Morgan Stanley & Co. LLC or their respective affiliates shall cease to be a primary U.S. government securities dealer (a "Primary Treasury Dealer"), the Corporation shall substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Mandatory Redemption

The Bonds maturing on November 1, 2042 are subject to redemption prior to their stated maturity, in part, from Mandatory Sinking Account Payments deposited in the Bond Fund under the Bond Indenture, on November 1 in the years indicated below, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, in the amounts indicated below.

Bonds Maturing on November 1, 2042	
Mandatory Sinking Account Payment Dates (November 1)	Mandatory Sinking Account Payments
2040	$250,000,000
2041	250,000,000
2042†	250,000,000

† Maturity.

Selection of Bonds for Redemption. Whenever provision is made in the Bond Indenture for the redemption of less than all of the Bonds of any maturity, the Bond Trustee shall select the Bonds to be redeemed from all Bonds of such maturity subject to redemption or such given portion thereof not previously called for redemption, pro rata in any manner that is customary in the industry. The Bond Trustee shall promptly notify the Corporation in writing of the Bonds or portions thereof so selected for redemption.

If the Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Bonds, if less than all of the Bonds of a maturity are called for prior redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Bonds are held in book-entry form, the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of DTC then in effect.

It is the Corporation's intent that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, the Corporation can provide no assurance that DTC, DTC's Direct and Indirect Participants or any other intermediary will allocate the redemption of Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a pro rata pass-through distribution of principal basis as discussed above, the Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

Notice and Effect of Redemption. Each notice of redemption shall state (i) the maturities of the Bonds or portions thereof which are to be redeemed, (ii) the date of redemption, (iii) the place or places where the redemption will be made, including the name and address of the Bond Trustee, (iv) the method of calculation of the Make-Whole Redemption Price, (v) the CUSIP numbers assigned to the Bonds to be redeemed, (vi) in the case of any Bonds to be redeemed in part only, the amount of such Bonds to be redeemed, (vii) the original dated date, interest rate and stated maturity date of each Bond to be redeemed and (viii) if funds shall not be irrevocably deposited with the Bond Trustee to pay the Make-Whole Redemption Price of the Bonds to be redeemed plus interest accrued thereon (if any) to the redemption date on or prior to the date that the redemption notice is first given as aforesaid, such notice shall state that any redemption is conditional on such funds being deposited with the Bond Trustee on the redemption date and that a failure to make such deposit shall not constitute an event of default under the Bond Indenture. Each notice shall also (a) state that if, on the date of redemption, the Bond Trustee holds sufficient moneys therefor, then, on the date of redemption, the Make-Whole Redemption Price of the Bonds to be redeemed, together with accrued interest thereon, if any, to the date fixed for redemption, shall become due and payable, and that from and after said date, interest thereon shall cease to accrue and be payable, and (b) require that on the said date, such Bonds shall be surrendered.

As long as the book-entry system is in effect with respect to the Bonds and DTC is the then current Securities Depository, any redemption notice shall be given to Cede & Co. (or such other nominee as has been specified by DTC), as Holder of the Bonds.

At least 20 but not more than 60 days prior to the redemption date, notice shall be given to the Holders of Bonds designated for redemption by first-class mail, postage prepaid at their addresses appearing on the registration books maintained by the Bond Trustee as of the close of business on the day before the notice is given; provided, that failure of the Bond Trustee to give such notice to a Holder or any defect in such notice shall not affect the validity of the redemption of any other Bonds. Notwithstanding anything to the contrary contained in the Bond Indenture, in the event all of the Bonds to be redeemed are held in book-entry form, the notice shall be given by Electronic Notice and the notice period may be less than 20 days prior to the redemption date provided such notice period complies with the operational guidelines of the then current Securities Depository in effect 60 days prior to the date of the scheduled redemption. A second notice of redemption shall be provided no more than 60 days after the redemption date by the same means as the first notice, to any Holder of Bonds who has not turned Bonds in for redemption within 30 days after the redemption date; provided, that failure of the Bond Trustee to give such notice to any such Holder or any defect in such notice shall not affect the validity of the redemption of such Bonds. If the Bonds are no longer held in book-entry form, notice shall also be given to each of such securities depositories and/or securities information services designated by the Corporation.

Any notice of redemption (other than a notice of redemption from Mandatory Sinking Account Payments) may be rescinded by written notice given to the Bond Trustee by the Corporation no later than five Business Days prior to the date specified for redemption. The Bond Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given.

Notice of the redemption of Bonds (or portions thereof) having been given as required under the Bond Indenture, and moneys for payment of the Make-Whole Redemption Price of such Bonds, plus interest accrued thereon to the redemption date, being held by the Bond Trustee, the Bonds (or portions thereof) so called for redemption shall become due and payable on the redemption date specified in such notice and on such date, interest on the Bonds called for redemption shall cease to accrue, such Bonds shall cease to be entitled to any benefit or security under the Bond Indenture, and the Holders of such Bonds shall have no rights in respect thereof except to receive payment of said Make-Whole Redemption Price and accrued interest.

Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Corporation shall execute and the Bond Trustee shall authenticate and deliver to the Holder thereof, at the expense of the Corporation, a new Bond or Bonds of authorized denominations and of the same maturity, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Additional Bonds

The Bond Indenture provides that, subsequent to the issuance of the Bonds, the Corporation may issue Additional Bonds pursuant to a supplemental bond indenture. Such Additional Bonds would have the same interest rate, maturity date and redemption provisions as the Bonds, and would constitute a part of the issue of the Bonds. As a condition to any such issuance of Additional Bonds, the Corporation would need to certify that, among other things, such issuance would not cause any adverse tax impact to the then existing Holders of outstanding Bonds. See **APPENDIX E** – "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of the Bond Indenture – Additional Bonds."

BOOK-ENTRY SYSTEM

General

Unless a successor securities depository is designated pursuant to the Bond Indenture, DTC will act as securities depository for the Bonds. The Bonds will be fully-registered securities registered in the name of Cede & Co. (DTC's nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond will be issued for each maturity of the Bonds in the aggregate principal amount of each such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the

Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instrument (from over 100 countries) that DTC's participants ("DTC Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of the regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("DTC Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Direct Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through DTC Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the DTC Direct Participants' and DTC Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the DTC Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of DTC Direct or Indirect Participants acting on behalf of Beneficial Owners. BENEFICIAL OWNERS WILL NOT RECEIVE CERTIFICATES REPRESENTING THEIR OWNERSHIP INTERESTS IN THE BONDS, EXCEPT IN THE EVENT THAT USE OF THE BOOK-ENTRY SYSTEM FOR THE BONDS IS DISCONTINUED.

To facilitate subsequent transfers, all Bonds deposited by DTC Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not cause any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the DTC Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The DTC Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC Direct Participants, by DTC Direct Participants to DTC Indirect Participants, and by DTC Direct Participants and DTC Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. THE CORPORATION, THE MEMBERS OF THE CHI CREDIT GROUP AND THE BOND TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

While the Bonds are in book-entry system and DTC is the Securities Depository, redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a DTC Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those DTC Direct Participants to whose accounts the Bonds are credited on a record date (established by DTC and identified in a listing attached to the Omnibus Proxy).

Principal, mandatory sinking account payments and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit DTC Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Trustee on payment dates in accordance with their respective holdings shown on DTC's records. Payments by DTC Direct or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Direct or Indirect Participant and not of DTC (nor its nominee), the Bond Trustee or the Members of the CHI Credit Group, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, Mandatory Sinking Account Payments and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee in accordance with the Bond Indenture. Disbursement of such payments to DTC Direct Participants shall be the responsibility of DTC and disbursement of such payments to the Beneficial Owners shall be the responsibility of DTC Direct and Indirect Participants.

DTC may discontinue providing its services as Securities Depository with respect to the Bonds at any time by giving reasonable notice to the Corporation and Bond Trustee. Under such circumstances, in the event that a successor Securities Depository is not obtained, such Bonds are required to be reregistered and delivered as described in the Bond Indenture.

The Corporation may decide to discontinue use of the system of book-entry transfers of the Bonds through DTC (or a successor Securities Depository). In that event, such Bonds will be printed and delivered as described in the Bond Indenture.

The foregoing description of the procedures and recordkeeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Direct or Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Bonds and other related transactions by and between DTC, the DTC Direct or Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters, and the Beneficial Owners should not rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Direct or Indirect Participants, as the case may be.

Limitations

THE CORPORATION, THE BOND TRUSTEE AND THE MEMBERS OF THE CHI CREDIT GROUP SHALL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE BONDS UNDER OR THROUGH DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE BOND TRUSTEE AS BEING A BONDHOLDER, WITH RESPECT TO: THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS UNDER THE BOND INDENTURE; THE SELECTION BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

SO LONG AS CEDE & CO. IS REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED HOLDERS OF THE BONDS, SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

SECURITY FOR THE BONDS

General

The Bonds are the general obligations of the Corporation, secured under the provisions of the Bond Indenture. The Bonds will be payable from payments required to be made under the Bond Indenture and certain other amounts as described in the Bond Indenture. The obligation of the Corporation to make payments under the Bond Indenture is secured by the Series 2012 Obligation issued by the Corporation under the Capital Obligation Document and delivered to the Bond Trustee.

The Bonds are secured solely by the Bond Indenture and are payable solely from payments under the Bond Indenture and Series 2012 Obligation. Neither the facilities of the Corporation or any other Members of the CHI Credit Group nor their revenues or other Property are pledged as security for the Bonds or the Series 2012 Obligation.

No Reserve Fund

No reserve fund has been established or funded under the Bond Indenture.

The Capital Obligation Document

Obligations. Under the Capital Obligation Document, the Corporation is authorized to issue, pursuant to a supplement to the Capital Obligation Document, Obligations to evidence or secure Indebtedness (or other obligations not constituting Indebtedness, such as interest rate hedges or swap obligations). Only the Obligated Group created under the Capital Obligation Document (which currently only includes the Corporation) is obligated for the payment of Obligations issued under the Capital Obligation Document, including the Series 2012 Obligation. The Capital Obligation Document also provides for the creation of the CHI Credit Group, which includes the Obligated Group, Participants and Designated Affiliates. The Corporation is obligated under the Capital Obligation Document to cause each Participant and Designated Affiliate (subject to contractual and organizational limitations) within the CHI Credit Group to pay or otherwise transfer to the Corporation such amounts as are necessary to make all payments required by the Obligations according to the terms thereof when due. The Participants and Designated Affiliates are not Members of the Obligated Group and are not liable to Holders for payment of the Obligations, including the Series 2012 Obligation. See **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP" for a description of the Corporation and the CHI Credit Group Members.

The CHI Credit Group. As noted above, the CHI Credit Group includes the Obligated Group, Participants and Designated Affiliates.

A Participant is defined in the Capital Obligation Document as any Person the financial results of which are required, under generally accepted accounting principles, to be consolidated into the financial statements of the Corporation. Accordingly, the Capital Obligation Document relies on generally accepted accounting principles rather than legal concepts of control to identify the Participants that are included in the CHI Credit Group. Therefore, to the extent that generally accepted accounting principles respecting consolidation differ from legal concepts of control, there is no assurance that the Corporation will be able to exercise control over certain Members of the CHI Credit Group. In such a situation, this may impede the Corporation's ability to compel their compliance with the Capital Obligation Document, if necessary in order for the Corporation to satisfy its obligations under the Capital Obligation Document, including, without limitation, the payment of the Series 2012 Obligation.

A Designated Affiliate is defined in the Capital Obligation Document to mean any entity that is so designated by the Corporation and which has entered into an agreement with the Corporation pursuant to which the Corporation has the power to cause the Designated Affiliate to comply with the Capital Obligation Document until the time that the Corporation shall declare that the entity will no longer be a Designated Affiliate. The Capital Obligation Document does not contain any limitation on the ability of the Corporation to determine that a Designated Affiliate shall no longer be a Designated Affiliate. The Capital Obligation Document also does not contain any specific requirements for the type of powers the Corporation must have over the Participants or the type of contractual rights or form of contract the Corporation must have with the Designated Affiliates.

In addition to the limitations on legal control of certain Members of the CHI Credit Group discussed in the preceding paragraphs, there may be restrictions in deeds, contracts or other documents that limit the ability of a particular CHI Credit Group Member to make transfers to the Corporation in order for the Corporation to satisfy its obligations under the Capital Obligation Document, including without limitation the payment of the Series 2012 Obligation. For example, a deed recorded in connection with certain property of a division of one of the CHI Credit Group Members includes a requirement that the owner of that property expend any net amounts accruing from the operation of that property in the expansion and improvement of such facility. The net assets of that Participant represented approximately 5% of the total net assets of the Corporation and the Participants as shown on the consolidated financial statements of the Corporation for the fiscal year ended June 30, 2012. Similar restrictions may presently or in the future be applicable to other Members of the CHI Credit Group. Moreover, the Corporation's relationship with its two Designated Affiliates is governed by a financing agreement which provides that such Designated Affiliates will transfer to the Corporation, upon request of the Corporation, amounts the Corporation determines are necessary for the Corporation to make Required Payments under the Capital Obligation Document, subject to the condition that the Corporation cannot require payments in amounts that are disproportionate to amounts required from Participants and other Designated Affiliates. See **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP – PART V – Governance – Governance of Participants and Relationship with Designated Affiliates" for more information, including a discussion of a pending transaction relating to one of the Designated Affiliates and the related financing agreement. Similar restrictions may presently or in the future be applicable to other Members of the CHI Credit Group.

Entities may be added and withdrawn from the CHI Credit Group by the Corporation from time to time. Although, the Capital Obligation Document requires the Corporation to include the income and assets of certain of the CHI Credit Group Members in calculations required under the Capital Obligation Document, the Capital Obligation Document imposes no limitations on the ability of the Corporation to withdraw such entity as a CHI Credit Group Member (as discussed above). The Corporation is actively engaging in ongoing monitoring and evaluation of potential facility expansion, mergers, acquisitions, divestures and affiliation opportunities consistent with its strategic goals, which, if consummated, will change the composition of the CHI Credit Group. See **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP – PART IV – Management's Discussion and Analysis – Potential Strategic Acquisitions, Affiliations and Divestitures."

The Obligated Group. The Capital Obligation Document creates an Obligated Group, the sole Member of which is currently the Corporation. As such, the Corporation is solely liable for payment of the Obligations issued under the Capital Obligation Document. Subject to certain conditions contained in the Capital Obligation Document and described herein, Obligated Group Members may be added to the Obligated Group from time to time and made jointly and severally liable with respect to Obligations Outstanding under the Capital Obligation Document. Additionally, Obligated Group Members may withdraw from the Obligated Group from time to time and be released from all liability with respect to Obligations. See **APPENDIX E** – "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of the Capital Obligation Document – Entrance Into the Obligated Group" and "– Cessation of Status as a Member of the Obligated Group."

The CHI Reporting Group. The Capital Obligation Document also creates the CHI Reporting Group, which includes: (i) the Corporation and any other members of the Obligated Group, (ii) the Participants, (iii) the Material Designated Affiliates, and (iv) any other Designated Affiliate that the Corporation chooses to include in the financial statements prepared pursuant to the Capital Obligation Document. The Capital Obligation Document requires that the CHI Reporting Group at all times includes such Persons who, collectively with the Corporation, any other Members of the Obligated Group and the Participants, represent at least 75% of the total revenues or total assets of the CHI Credit Group, as determined based upon the most recent financial statements delivered pursuant to the Capital Obligation Document. A Material Designated Affiliate is defined in the Capital Obligation Document as any Designated Affiliate whose total revenues as set forth on its financial statements for the most recently completed Fiscal Year for such Designated Affiliate exceed 5% of the combined total revenues of the Corporation and the

Participants as set forth on the combined financial statements for the most recently completed Fiscal Year of the Corporation. Currently, the members of the CHI Reporting Group are identical to those of the CHI Credit Group.

Covenants. The Capital Obligation Document contains financial and operating covenants, certain of which are discussed below. In determining whether the Corporation has satisfied these covenants, the Capital Obligation Document requires the Corporation to include the income and assets of the Corporation and the CHI Credit Group Members in calculating the related ratios and in testing for compliance even though the CHI Credit Group Members (excluding the Corporation) are not obligated on the Obligations.

Historical Debt Service Coverage Ratio. If in any Fiscal Year the Historical Debt Service Coverage Ratio of the CHI Reporting Group is less than 1.1 to 1.0, the Capital Obligation Document requires that the Corporation retain a consultant (with certain exceptions) to make recommendations regarding the Participants' and Designated Affiliates' methods of operation and other factors affecting their financial condition in order to increase such Historical Debt Service Coverage Ratio to at least 1.1 to 1.0. See **APPENDIX E** – "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of the Capital Obligation Document – Historical Debt Service Coverage Ratio."

Covenant Against Liens on Property; Permitted Senior Indebtedness. Pursuant to the Capital Obligation Document, the Corporation and any future Member of the Obligated Group agree that they will not create or incur or permit to be created or incurred or to exist any Lien securing Indebtedness or Hedging Transactions on their Property, and the Corporation and any future Obligated Group Members agree that they will not permit to be created or incurred or to exist any such Lien upon any Property of any CHI Credit Group Member that they control except, in each instance, Permitted Encumbrances. Permitted Encumbrances include, among other things, Liens on Property existing as of the effective date of the Capital Obligation Document and on the date of merger or becoming a Member of the CHI Credit Group and any Liens on Property securing Indebtedness where the total aggregate Book Value (or at the option of the Corporation, current value) of the Property subject to a certain Lien does not exceed 25% of the Book Value of the Property, Plant and Equipment of the CHI Credit Group. See **APPENDIX E** – "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of the Capital Obligation Document – Liens on Property" and "– Definitions."

Merger, Consolidation, Sale and Conveyance. The Capital Obligation Document contains certain provisions with respect to merger, consolidation, or sale and conveyance of substantially all of the Property of the Corporation. See **APPENDIX E** – "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of the Capital Obligation Document – Merger, Consolidation, Sale or Conveyance."

No Restrictions on Incurrence of Additional Indebtedness. The ability of the Corporation and the other CHI Credit Group Members and any future Obligated Group Member or CHI Credit Group Member to incur additional indebtedness, including additional indebtedness evidenced by Obligations, and the amount and terms of such additional indebtedness, is not limited by the provisions of the Capital Obligation Document.

No Restrictions on Transfer of Assets. The ability of the Corporation and the other CHI Credit Group Members and any future Member of the Obligated Group or CHI Credit Group Member to sell, lease, transfer or otherwise dispose of its assets is not limited by the provisions of the Capital Obligation Document.

No Requirement of Reserved Powers or Contractual Rights. The Capital Obligation Document requires that the Corporation cause each Participant and Designated Affiliate to pay or otherwise transfer to the Corporation such amounts as are necessary to make all payments required on the Obligations according to the terms thereof when due. **This agreement is subject to legal limitations which may render the Corporation unable to cause the Participants and Designated Affiliates to make such payments or transfer such amounts.** See "BONDHOLDERS' RISKS – Dependence on CHI Credit Group Members." The Capital Obligation Document does not contain any specific requirements for the type of powers the Corporation must have over the Participants or the type of contractual rights or form of contract the Corporation must have with the Designated Affiliates. **Accordingly, no assurance can be given that the Corporation will be able to exercise such powers over the Participants and the Designated Affiliates.**

CHI Trustee Also Serves as the Bond Trustee. Wells Fargo Bank, National Association serves as CHI Trustee under the Capital Obligation Document and as Bond Trustee under the Bond Indenture. The Bond Trustee is the registered holder of the Series 2012 Obligation under the Capital Obligation Document.

Series 2012 Obligation

The Corporation will issue the Series 2012 Obligation as security for the Bonds. Payments on the Series 2012 Obligation are required to be in amounts sufficient to pay when due the principal or Make-Whole Redemption Price of, and interest on, the Bonds.

The Series 2012 Obligation is not secured by any pledge of, mortgage on or security interest in the Property (including revenues) of the Corporation or any other CHI Credit Group Member. The Capital Obligation Document permits additional indebtedness of the Corporation or the CHI Credit Group Members to be secured by security which need not be extended to any other Indebtedness (including the Series 2012 Obligation).

Additional Obligations

The Series 2012 Obligation will be secured on a parity basis with all existing Obligations and all additional Obligations issued from time to time under the Capital Obligation Document.

Additional Covenants with Financial Institutions and Bond Insurers

The Corporation has in place agreements with financial institutions and bond insurers that include representations, covenants and agreements in addition to those contained in the Capital Obligation Document. An event of default under any such agreement could result in an event of default under the Capital Obligation Document. The covenants in such agreements may be waived or modified with the consent of the related financial institution or bond insurer and without consent of or notice to any owner of the Bonds.

CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP

For information on the CHI Credit Group, see **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP."

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds related to the Bonds.

Sources of Funds	
Par Amount Less Original Issue	$1,500,000,000.00
Discount	-3,000,000.00
Total Sources:	$1,497,000,000.00
Uses of Funds	
Funds transferred to the Corporation	$1,484,829,620.03
Costs of Issuance	1,658,325.00
Underwriting discount	10,512,054.97
Total Uses:	$1,497,000,000.00

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

DEBT SERVICE REQUIREMENTS

The following table sets forth, for each of the Corporation's fiscal years ending June 30, the amounts required to be made available for the payment of principal due on the Bonds, whether at maturity or by Mandatory Sinking Account redemption, for the payment of the total interest on the Bonds, for the total debt service on the Bonds, for total debt service on the Series 2009B-1 Bonds upon their conversion to fixed rates, for the total debt service on all other obligations for borrowed money outstanding (excluding the outstanding taxable commercial paper and the Series 2009B-1 Bonds) upon the issuance of the Bonds and for the total combined debt service on the foregoing.

Fiscal Year Ending (June 30)	Principal and Mandatory Sinking Account Payments	Interest	Total	Total Debt Service on Series 2009B-1 Bonds	Total Debt Service on Other Obligations for Borrowed Money[(1)*]	Total Combined Debt Service[*]
2013		$25,830,208	$25,830,208	$618,365	$156,387,482	$182,836,055
2014		51,375,000	51,375,000	4,200,213	244,881,065	300,456,277
2015		51,375,000	51,375,000	4,200,213	246,752,779	302,327,991
2016		51,375,000	51,375,000	4,200,213	250,423,697	305,998,909
2017		51,375,000	51,375,000	4,200,213	249,381,123	304,956,335
2018	$250,000,000	49,375,000	299,375,000	4,200,213	253,600,799	557,176,012
2019		47,375,000	47,375,000	4,200,213	254,162,799	305,738,011
2020		47,375,000	47,375,000	4,200,213	254,314,725	305,889,937
2021		47,375,000	47,375,000	4,200,213	251,500,498	303,075,710
2022		47,375,000	47,375,000	4,200,213	254,663,160	306,238,372
2023	500,000,000	40,000,000	540,000,000	4,200,213	254,208,275	798,408,487
2024		32,625,000	32,625,000	4,200,213	250,437,996	287,263,208
2025		32,625,000	32,625,000	4,200,213	252,193,365	289,018,578
2026		32,625,000	32,625,000	4,200,213	254,197,371	291,022,583
2027		32,625,000	32,625,000	8,894,838	254,248,148	295,767,986
2028		32,625,000	32,625,000	8,078,838	255,259,041	295,962,878
2029		32,625,000	32,625,000	8,314,081	254,441,027	295,380,109
2030		32,625,000	32,625,000	10,311,575	253,328,953	296,265,528
2031		32,625,000	32,625,000	12,061,075	251,447,904	296,133,979
2032		32,625,000	32,625,000	12,084,575	246,938,390	291,647,965
2033		32,625,000	32,625,000	6,190,200	254,224,172	293,039,372
2034		32,625,000	32,625,000	5,731,300	259,379,023	297,735,323
2035		32,625,000	32,625,000	1,962,400	263,236,868	297,824,268
2036		32,625,000	32,625,000	1,962,400	261,406,303	295,993,703
2037		32,625,000	32,625,000	1,962,400	240,193,482	274,780,882
2038		32,625,000	32,625,000	1,962,400	240,181,117	274,768,517
2039		32,625,000	32,625,000	19,863,400	219,858,964	272,347,364
2040		32,625,000	32,625,000	26,632,200	215,139,085	274,396,285
2041	250,000,000	27,187,500	277,187,500		241,654,738	518,842,238
2042	250,000,000	16,312,500	266,312,500		129,703,090	396,015,590
2043	250,000,000	5,437,500	255,437,500		69,703,656	325,141,156
2044					69,134,187	69,134,187
2045					68,779,835	68,779,835
2046					68,503,685	68,503,685
TOTAL:[*]	**$1,500,000,000**	**$1,113,767,708**	**$2,613,767,708**	**$181,232,808**	**$7,543,866,802**	**$10,338,867,319**

(1) The calculation of debt service assumes that (A) VRDBs with related Swap Agreements bear interest through their respective maturity dates at their respective swap rates, (B) the other VRDBs, Windows VRDBs and Direct Purchase Bonds bear interest through their respective maturity dates at a 3.50% average annual interest rate and (C) Long-Term Rate Bonds bear interest through their respective maturity dates at their respective interest rates established for their current long-term interest periods. See **APPENDIX A** under PART IV, Section F and Section I for definitions of the capitalized terms.

* Totals may not foot due to rounding.

CONTINUING DISCLOSURE

The Corporation has covenanted for the benefit of Holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the Corporation and the Members of the CHI Credit Group by not later than one hundred fifty (150) days after the end of the Corporation's fiscal year (which fiscal year currently ends on June 30), commencing with the report for the fiscal year ending June 30, 2013 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The specific nature of the information to be contained in the Annual Report and the notices of material events is described in **APPENDIX F** – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

In addition, the Corporation has covenanted to provide quarterly unaudited financial information for the Corporation, the Participants and the Material Designated Affiliates for the first three quarters of each fiscal year (beginning with the quarter ending September 30, 2012) not later than ninety (90) days after the end of each such quarter. The Corporation has also covenanted to provide quarterly unaudited financial information for the Corporation and the Participants for the fourth quarter of each fiscal year not later than ninety (90) days after the end of each fiscal year.

The unaudited financial information for the first three quarters of each fiscal year will include a condensed balance sheet and a consolidated statement of operations, presented on a basis substantially consistent with the format of the financial statements included in **APPENDIX A** to this Offering Memorandum. The unaudited financial information for the fourth quarter of each fiscal year will include a condensed balance sheet and a consolidated statement of operations, presented on a basis substantially consistent with the format of the financial statements included in **APPENDIX B** to this Offering Memorandum.

Since the Bonds are taxable securities issued directly by the Corporation, the Electronic Municipal Market Access ("EMMA") website of the Municipal Securities Rulemaking Board (the "MSRB") is not directly available for the filing of annual or quarterly reports or material event notices relating to the Bonds. The Corporation will, however, file such reports and notices on EMMA so long as it has other tax-exempt bonds outstanding, using the CUSIP numbers for such bonds. If no such bonds are outstanding, the Corporation will make such reports and notices available through another nationally recognized disclosure site selected by the Corporation or through the Corporation's website.

The Corporation has voluntarily been making such quarterly and annual financial information available on its website at www.catholichealthinitiatives.net. No information found on the Corporation's website and no information accessed from the Corporation's website is a part of this Offering Memorandum. The Corporation's quarterly and annual financial information can also be accessed through the Digital Assurance Certification LLC ("DAC") website at www.dacbond.com. No assurances can be given that the Corporation will continue to make such information available on its website or on the DAC website.

See **APPENDIX E** – "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of the Capital Obligation Document – Financial Statements" and **APPENDIX F** – "FORM OF CONTINUING DISCLOSURE CERTIFICATE" for a description of the type of financial information that will be provided in the Annual Report relating to the CHI Reporting Group.

BONDHOLDERS' RISKS

General

The purchase and ownership of the Bonds involve certain investment risks that are discussed throughout this Offering Memorandum. Each prospective purchaser of the Bonds should make an independent evaluation of the information presented in this Offering Memorandum.

Some of the risks that could affect the Bonds and the future financial condition of the CHI Credit Group are described below. This description of various risks is not, and is not intended to be, exhaustive.

Any of the risk factors described herein may affect the utilization of the facilities of the CHI Credit Group or CHI Credit Group's revenues, expenses, cash flow and financial condition and impair its ability to make required payments under the Bond Indenture and the Series 2012 Obligation when due. Any such impairment will adversely affect the Corporation's ability to pay the principal or Make-Whole Redemption Price of, and interest on, the Bonds when those payments are due.

For information concerning the financial condition of the CHI Credit Group, see **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP," **APPENDIX B** – "AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011 OF CATHOLIC HEALTH INITIATIVES," **APPENDIX C** – "AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011 OF BETHESDA HOSPITAL INC. AND SUBSIDIARIES" and **APPENDIX D** – "AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011 OF ALEGENT HEALTH AND RELATED ENTITIES."

The CHI Credit Group is subject to a wide variety of federal and state regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid and other payors and is subject to actions by, among others, the National Labor Relations Board, The Joint Commission, the Centers for Medicare & Medicaid Services ("CMS") of the U.S. Department of Health and Human Services ("DHHS"), state Attorney Generals, and other federal, state and local government agencies. The future financial condition of the CHI Credit Group could be adversely affected by, among other things, changes in the method, timing and amount of payments to the CHI Credit Group Members by governmental and nongovernmental payors, the financial viability of these payors, increased competition from other healthcare entities, the costs associated with responding to governmental audits, inquiries and investigations, demand for healthcare, other forms of care or treatment, changes in the methods by which employers purchase healthcare for employees, capability of management, changes in the structure of how healthcare is delivered and paid for (e.g., accountable care organizations and other health reform payment mechanisms), future changes in the economy, demographic changes, availability of physicians, nurses and other healthcare professionals, malpractice claims and other litigation. These factors and others may adversely affect payment by the Corporation under the Bond Indenture and the Series 2012 Obligation and, consequently, on the Bonds. In addition, the tax-exempt status of the Corporation and any of the tax-exempt CHI Credit Group Members could be adversely affected by, among other things, an adverse determination by a governmental entity, noncompliance with governmental regulations or legislative changes, including changes resulting from current health reform legislation or initiatives. Loss of tax-exempt status by the Corporation or any of the tax-exempt CHI Credit Group Members could adversely affect the CHI Credit Group.

General Economic Conditions

The disruption of the credit and financial markets in the last several years has led to volatility in the securities markets, significant losses in investment portfolios, increased business failures and consumer and business bankruptcies.

The health care sector, including the Corporation and the CHI Credit Group, has been materially adversely affected by the disruption of the credit and financial markets. The consequences of the disruption have in the past generally included difficulties in extending existing or obtaining new liquidity facilities and difficulties in rolling maturing commercial paper and remarketing revenue bonds subject to tender requiring the expenditure of internal liquidity to fund principal payments on commercial paper or tenders of revenue bonds and/or requiring expenditure of funds to restructure debt capital and increased borrowing costs, which circumstances may occur in the future. Other impacts, such as realized and unrealized investment portfolio losses and reduced investment income, are continuing to be experienced from time to time.

The economic recession has adversely affected the operations of the CHI Credit Group. Patient service revenues and inpatient volumes have not increased as historic trends would otherwise indicate. Unemployment rates are at historical highs, which has resulted in increases in self-pay admissions, increased levels of bad debt and uncompensated care, and reduced availability and affordability of health insurance. The current condition of the economy is also increasing stresses on the budgets of states in which CHI Credit Group Members are located, potentially resulting in reductions in Medicaid payment rates or Medicaid eligibility standards, and delays of payment of amounts due under Medicaid and other state or local payment programs.

See **APPENDIX A** of this Offering Memorandum for specific information about the effects of these factors upon the CHI Credit Group's recent financial performance and its financial condition, and upon its investment and debt portfolio. In particular, reference is made to information in **APPENDIX A** under the caption headings, "PART III – Financial Ratios and Summary of Selected Financial Data" and "PART IV – Management's Discussion and Analysis."

Increased Regulation of Financial Markets. In response to the disruption of the credit and financial markets, certain federal regulatory changes were enacted or are under consideration, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Financial Reform Act") enacted in 2010. The Financial Reform Act includes broad changes to the existing financial regulatory structure, including the creation of new federal agencies to identify and respond to risks to the financial stability of the United States. Additional legislation is pending or under active consideration by Congress and regulatory action is being considered by various Federal agencies and the Federal Reserve Board and foreign governments, which are intended to increase the regulation of domestic and global credit markets. The effects of the Financial Reform Act and of these legislative, regulatory and other governmental actions, if implemented, have and may continue to adversely affect financial institutions and the credit market as a whole.

Impact of Investment Performance. The CHI Credit Group has significant holdings in a broad range of investments. Investment income (including both realized and unrealized gains and losses on investments) has had a significant impact on the CHI Credit Group's financial results over recent years. Market fluctuations have affected and will likely continue to affect materially the value of those investments and those fluctuations may be and historically have been material. Both the state of the economy and market disruptions have exacerbated the market fluctuations. Reduction in investment income and the market value of its investments may have a negative impact on the CHI Credit Group's financial condition, including its ability to provide its own liquidity for variable rate debt or to fund capital expenses from cash and investments. See **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP – PART IV – Management's Discussion and Analysis – Investments" for a more detailed description of the Corporation's investment policy and the CHI Credit Group's investment performance for the fiscal years ended June 30, 2012, 2011 and 2010.

Pension and Benefit Funds. The Corporation incurs significant expenses to fund pension and benefit plans for employees and former employees, and to fund required workers' compensation benefits. Those funding obligations are dependent, in part, on investment income and the market value of fund assets, and can be erratic or unanticipated and may require significant commitments of available cash needed for other purposes. The CHI Credit Group's retirement plans are currently underfunded, see **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP – PART IV – Management's Discussion and Analysis – Retirement Plans" and "— Combined Results of Operation" for the funded status of the CHI Credit Group's retirement plans.

Access to Credit Markets. Any adverse conditions in the credit markets may cause the Corporation's ability to borrow to fund capital expenditures to be more limited and more expensive and may result in the postponement or revision of planned and approved capital projects, which may be integral to the CHI Credit Group's financial condition and operations.

Risks Related to Outstanding Variable Rate Obligations. The market for variable rate obligations was adversely affected by the recent years' recession and disruption in the credit markets. Certain outstanding securities secured by Obligations issued under the Capital Obligation Document are variable rate obligations and, accordingly, are subject to market risk. As a result, the interest rates on such outstanding securities could rise.

Interest Rate Swap Risk. The Corporation has entered into interest rate swaps (the "Swaps") with a notional amount of approximately $931.8 million at June 30, 2012. The Swaps are subject to periodic "mark-to-market" valuations and at any time may have negative value to the Corporation, which may trigger a requirement that the Corporation post collateral for the benefit of the Swap counterparties. The Swap counterparties may terminate the Swaps upon the occurrence of certain "termination events" or "events of default." The Corporation may terminate the Swaps at any time. If either the Swap counterparties or the Corporation terminate the Swaps during a negative value situation, the Corporation may be required to make a termination payment to the Swap counterparties, and such payment could be material. Pursuant to the Swaps, the Swap counterparties will be obligated to make variable rate payments to the Corporation based on an index and the notional amount of the applicable Swap, which payments may be more or less than the variable rates the Corporation is required to pay with respect to a comparable amount of principal of the bonds to which the Swap relates. Swap counterparties in general are susceptible to rating downgrades and negative market perception and some have ceased to exist. No determination can be made at this time as to the potential exposure to the Corporation relating to the difference in variable rate payments, collateral posting requirements or termination payments. For a discussion of the Corporation's swap arrangements, see **APPENDIX A** and **APPENDIX B.**

Exposure to Liquidity Risks. Commercial banks have issued standby bond purchase agreements and lines of credit that provide liquidity for certain variable rate bonds issued for the benefit of the CHI Credit Group. No assurance can be given that such commercial banks will provide funds to purchase tendered variable rate bonds issued for the benefit of the CHI Credit Group. Additionally, as described in **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP – PART IV – Management's Discussion and Analysis – Liquidity and Capital Resources," the Corporation provides self-liquidity support for some of the variable rate bonds issued for the benefit of the CHI Credit Group. In connection with the provision of self-liquidity support, the Corporation is obligated to provide for the payment of the tender price of self-liquidity supported variable rate bonds that are tendered and not remarketed. Additionally, the Corporation is obligated to provide for the payment of the tender price of any variable rate bonds tendered and not remarketed if the commercial banks providing liquidity support for such variable rate bonds fail to provide funds for such purchase. Any failure by the Corporation to purchase such variable rate bonds upon their tender under these circumstances may constitute an event of default under the related bond indenture and if so, would therefore trigger a cross-default to the Capital Obligation Document.

The short-term ratings assigned to any variable rate bonds issued for the benefit of the CHI Credit Group and supported by a dedicated external bank facility are based upon the ratings assigned to the related commercial bank. The ratings assigned to any variable rate bonds issued for the benefit of the CHI Credit Group that are not supported by a dedicated external bank facility are based upon the ratings assigned to the CHI Credit Group. No assurance can be given that the ratings assigned to such variable rate bonds will remain in effect for any given period of time or that they might not be lowered or withdrawn entirely. Any downward change in or withdrawal of any ratings could increase the Corporation's debt service requirements.

Additionally, if variable rate bonds are tendered for purchase and not remarketed, those bonds that are supported by an external bank facility would be purchased through a draw on the related standby bond purchase agreement. The Corporation would then be required to repay the related commercial bank for such draw over time (typically pursuant to a more rapid amortization of principal than the amortization for the publicly held bonds), and the interest rate payable to such commercial bank for such draw would likely be significantly higher than the interest rate for bonds held by the bondholders.

Difficulty Obtaining New Liquidity Facilities or Extensions to Existing Liquidity Facilities. The recent years' recession and credit market disruption caused a number of financial institutions to restrict lending, including the extension of liquidity and credit facilities. No assurance can be given that the Corporation's existing liquidity facilities providers will renew existing liquidity facilities or renew them on terms that the Corporation considers cost-effective, or that the Corporation will be able to obtain alternate liquidity facilities for its variable rate bonds and commercial paper, which will increase the Corporation's self-liquidity exposure. The Corporation believes that it has sufficient cash and liquid securities in its portfolio to fund tenders of variable rate bonds and maturing commercial paper.

Inability to Roll Commercial Paper. The market for commercial paper was adversely affected by the effects of the recent years' recession and disruption in the credit markets. The Corporation had approximately $475.6 million of outstanding commercial paper notes as of June 30, 2012. To date, the Corporation has been able to successfully roll its commercial paper, but there is no assurance that it will be able to do so in the future. Any such failure would have a negative impact on the Corporation's financial condition, including its ability to provide its own liquidity for variable rate debt.

Dependence on CHI Credit Group Members

The Corporation does not have sufficient assets or revenues of its own to pay debt service on all of the outstanding Obligations, including the Series 2012 Obligation. The Corporation is dependent on other CHI Credit Group Members to provide it with funds sufficient to meet its debt service obligations, and the CHI Credit Group Members (except for the Corporation and any future Members of the Obligated Group) are under no legal obligation to do so under the Capital Obligation Document.

The Capital Obligation Document obligates the Corporation to exercise its control over CHI Credit Group Members to obtain funds for debt service. There can be no assurance, however, of the extent or adequacy of the Corporation's control or the ability of the Corporation to exercise this control. See "SECURITY FOR THE BONDS – The Capital Obligation Document – No Requirement of Reserved Powers or Contractual Rights." For example, the Corporation may not be able to enforce the transfer of funds by CHI Credit Group Members that are not for-profit corporations to pay debt service to the extent such funds (i) are requested to make payments on any Obligation that was issued for a purpose not consistent with the charitable purposes of the CHI Credit Group Member from which such transfer is requested or that was issued for the benefit of any entity other than a tax-exempt organization; (ii) are requested to be made from any property which is donor restricted or which is subject to a direct or express trust which does not permit the use of such property for such payments; or (iii) would result in the cessation or discontinuation of any material portion of the healthcare or related charitable services previously provided by the CHI Credit Group Member from which such payment is requested. Since neither the identity of particular CHI Credit Group Members from whom funds will be requested, the amount of such requested funds, the charitable purposes of such CHI Credit Group Members nor their financial conditions and available funds when the Corporation makes the request can presently be determined, the extent to which the property of any CHI Credit Group Member may fall within any of the categories referred to above cannot be determined and could be substantial.

There is no clear precedent in the law as to whether transfers from a CHI Credit Group Member in order to pay debt service on the Obligations issued for the benefit of another CHI Credit Group Member may be voided by a trustee in bankruptcy in the event of a bankruptcy of the transferring CHI Credit Group Member or by creditors of the transferring CHI Credit Group Member in an action brought pursuant to fraudulent conveyances or similar state statutes. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under fraudulent conveyances statutes, a creditor of a guarantor, may avoid any obligation incurred by a guarantor, if, among other bases therefor, (i) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty and (ii) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or fraudulent conveyances statutes, or the guarantor is undercapitalized.

Application by courts of tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. It is possible that, in an action to force a CHI Credit Group Member to transfer funds to the Corporation to permit the Corporation to pay debt service on Obligations issued for the benefit of another CHI Credit Group Member, a court might not permit such a transfer in the event it is determined that the CHI Credit Group Member is analogous to a guarantor, that fair consideration or reasonably equivalent value for such guaranty was not received, that the transfer will render the CHI Credit Group Member insolvent or the CHI Credit Group Member is or will thereby become undercapitalized.

There exists common law authority and authority under certain statutes for the ability of the courts to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes. Such court action may arise on the court's own motion or pursuant to a petition of the state Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

Unsecured Obligation

Neither the facilities nor the revenues of the Members of the CHI Credit Group are pledged as security for the Bonds or the Series 2012 Obligation. In the event of a default and the exercise by the Bond Trustee or the CHI Trustee of remedies available to them, the Bond Trustee or the CHI Trustee, as applicable, would be unsecured creditors with no rights to any specific revenues or facilities of the Members of the CHI Credit Group.

Factors That Could Affect the Enforceability of the Bond Indenture, Series 2012 Obligation and the Capital Obligation Document

The legal right and practical ability of the Bond Trustee to enforce its rights and remedies against the Corporation under the Bond Indenture, the Series 2012 Obligation and of the CHI Trustee to enforce its rights and remedies against the Corporation under the Capital Obligation Document may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights. In addition, the Bond Trustee's and the CHI Trustee's ability to enforce such terms will depend upon the exercise of various remedies specified by such documents that may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or may be limited. See "SECURITY FOR THE BONDS – The Capital Obligation Document."

Discretion of Board and Management

The Capital Obligation Document does not significantly restrict the ability of the Corporation to enter into transactions that could materially change the business, organizational structure and control of the Corporation and the CHI Credit Group Members. As a result, the decisions made with respect to such transactions are dependent in large measure on the decisions of the Board of Stewardship Trustees and management of the Corporation. Such transactions could include, for example, transfer of control of any CHI Credit Group Member by the Corporation, joint ventures or joint operating agreements, and mergers, consolidations or other forms of affiliations in which control of the Corporation of a CHI Credit Group Member could be materially changed. Given the pace of change in the health care industry, the Corporation is actively monitoring and evaluating opportunities to enter into transactions of this type. See also "BONDHOLDERS' RISKS – Hospital Affiliation, Acquisition and Disposition." Although management of the Corporation and its Board of Stewardship Trustees carefully review and deliberate such opportunities, no assurance can be given that their undertaking would not adversely affect the ability of the Corporation to generate revenues from the CHI Credit Group Members sufficient to pay debt service on the Series 2012 Obligation. See **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP – PART IV – Management's Discussion and Analysis – Potential Strategic Acquisitions, Affiliations and Divestitures."

Nonprofit Healthcare Environment

Nearly all of the CHI Credit Group Members are nonprofit corporations, exempt from federal income taxation as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). As nonprofit tax-exempt organizations, the CHI Credit Group Members are subject to federal, state and local laws, regulations, rulings and court decisions relating to their organization and operation, including their operation for religious and charitable purposes. At the same time, the CHI Credit Group Members conduct large-scale complex business transactions and are often the major employers in their geographic areas. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex, multi-state healthcare system.

The operations or practices of healthcare providers have been routinely challenged or criticized for inconsistency or inadequate compliance with regulatory requirements for and societal expectations of nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the healthcare organizations. An overarching concern is that nonprofit hospitals may not be providing community benefits that exceed or equal the value of the benefit received from their tax-exempt status, and some commentators have suggested that Congress should eliminate or significantly curtail the tax-exempt status of some or all exempt hospitals. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, methods of providing and reporting community benefits, executive compensation, exemption of property from real property taxation, private use of facilities financed with tax-exempt bonds and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the "IRS"), labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation.

The following are some examples of the challenges and examinations facing nonprofit healthcare organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations, and may indicate an increasingly more difficult operating environment for nonprofit healthcare organizations, including the Members of the CHI Credit Group. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on the CHI Credit Group.

Congressional Hearings. Senate and House committees have conducted several nationwide investigations of hospital billing and collection practices and prices charged to uninsured patients and have considered reforms to the nonprofit sector, including proposed reform in the area of tax-exempt health care organizations, as part of health care reform generally.

IRS Examination of Compensation Practices and Community Benefit. In 2004, the IRS began a new examination program to measure compliance by tax-exempt organizations with the Code's requirements that they not pay excessive compensation and benefits to their officers and other insiders. In February 2009, the IRS published a report summarizing the results of this examination program, and indicated that it will continue to heavily scrutinize executive compensation arrangements, practices and procedures, and in certain circumstances, may conduct further investigations or impose fines on tax-exempt organizations.

In 2007, the IRS released an interim report summarizing responses from almost 500 tax-exempt hospitals to a 2006 questionnaire about how they provide and report benefits to the community. The IRS concluded in that report that a lack of uniformity in definitions of community benefit used by reporting hospitals, including those regarding uncompensated care and various types of community benefit, made it difficult for the IRS to assess whether any particular hospital is in compliance with current law. As a result of this report, the IRS revised its Form 990 (Return of Organization Exempt from Income Tax) to include Schedule H, on which hospitals report their community benefit activities, including the cost of providing charity care and other tax-exemption related information. Proposals have also been made within Congressional committees to codify the requirements for hospitals' tax-exempt status, including requirements to conduct a regular community needs analysis and to provide minimum levels of charity care. Additionally, the health reform act contains new requirements that non-profit hospitals must satisfy in order to maintain their tax-exempt status. See "— Charity Care" below.

Litigation Relating to Billing and Collection Practices. Lawsuits have been filed in federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. Many of these cases have since been dismissed by the courts. A number of cases are still pending in various courts around the country with inconsistent results. While it is not possible to make general predictions, some hospitals and health systems have entered into substantial settlements.

Challenges to Real Property Tax Exemptions. Recently, the real property tax exemptions afforded to certain nonprofit healthcare providers by state and local taxing authorities have been challenged on the grounds that the healthcare providers were not engaged in charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. While the Corporation is not aware of any current challenge to the tax exemption afforded to any material real property of the CHI Credit Group Members, there can be no assurance that these types of challenges will not occur in the future.

Federal, State and Local Legislation

The Members of the CHI Credit Group are subject to a wide variety of federal, state and local regulatory actions and legislative and policy changes that could have a significant impact on the CHI Credit Group. Federal, state and local legislative bodies have broad discretion in altering or eliminating programs that contribute significantly to the revenues of the Members of the CHI Credit Group, including the Medicare and Medicaid programs. In addition, such legislative bodies may enact legislation that imposes significant new burdens on the operations of the Members of the CHI Credit Group. There can be no assurance that such legislative bodies will not make legislative policy changes (or direct governmental agencies to promulgate regulatory changes) that have adverse effects upon the ability of the Members of the CHI Credit Group to generate revenues or control expenses, or upon the utilization of their facilities.

Recently enacted or proposed federal legislation that may have a significant impact on the health care and insurance industries, including the CHI Credit Group, are described below.

Budget Control Act of 2011

The Budget Control Act of 2011 (the "Budget Control Act") limits the federal government's discretionary spending caps at levels necessary to reduce expenditures by $917 billion from the current federal budget baseline for federal fiscal years 2011 and 2012. Medicare, Social Security, Medicaid and other entitlement programs will not be affected by the limit on discretionary spending caps.

The Budget Control Act also created a new Joint Select Committee on Deficit Reduction (the "Super Committee"), which was tasked with making recommendations to further reduce the federal deficit by $1.5 trillion. Due to the Super Committee's failure to act within the time frame specified in the Budget Control Act, effective on January 1, 2013, the debt ceiling will be automatically raised and sequestration (across the board cuts) will be triggered in an amount necessary to achieve $1.2 trillion in savings. A wide range of spending is exempted from sequestration, including Social Security, Medicaid, veteran's benefits and pensions, federal retirement funds, civil and military pay, child nutrition, and other programs. However, Medicare is not exempted from sequestration. Medicare payments could be reduced in part as a result of these across the board spending reductions, limited to 2% of program costs.

The Budget Control Act also provides for a 27.4% reduction in Medicare's sustainable growth rate (SGR) formula for physician reimbursement, which would become effective in 2013, absent additional congressional action prior to year end to repeal or modify that SGR formula. The Middle Class Tax Relief and Job Creation Act of 2012, enacted in February 2012, freezes physician payment rates at 2011 levels only until December 31, 2012.

Absent further Congressional action prior to January 1, 2013, the effective date of sequestration, the automatic spending cuts described above will be triggered. Because Congress may make changes to the budget in the future, it is impossible to predict the impact any spending cuts that are approved may have upon the CHI Credit Group. Similarly, it is impossible to predict whether any automatic reductions to Medicare may be triggered in lieu of other spending cuts that may be proposed by Congress. However, if effective, these reductions could have a material adverse effect on the financial condition of the CHI Credit Group. Further, with no long-term resolution in place for federal deficit reduction, hospital and physician reimbursement are likely to continue to be targets for reductions with respect to any interim or long-term federal deficit reduction efforts.

Health Care Reform

In March 2010, the Patient Protection and Affordable Care Act (the "Health Care Reform Act") was enacted and approved by the President.

Some of the provisions of the Health Care Reform Act took effect immediately, while others will take effect or will be phased in over time, ranging from a few months following approval to ten years. Because of the complexity of the Health Care Reform Act generally, additional legislation is likely to be considered and enacted over time. The Health Care Reform Act will also require the promulgation of substantial regulations with significant effects on the health care industry and third-party payors. In response, third-party payors and suppliers and vendors of goods and services to health care providers are expected to impose new and additional contractual terms and conditions. Thus, the health care industry will be subjected to significant new statutory and regulatory requirements and contractual terms and conditions, and consequently to structural and operational changes and challenges, for a substantial period of time.

A significant component of the Health Care Reform Act is reformation of the sources and methods by which consumers will pay for health care for themselves and their families and by which employers will procure health insurance for their employees and dependents and, as a consequence, expansion of the base of consumers of health care services. One of the primary drivers of the Health Care Reform Act is to provide or make available, or subsidize the premium costs of, health care insurance for some of the millions of currently uninsured (or underinsured) consumers who fall below certain income levels. The Health Care Reform Act proposes to accomplish that objective through various provisions, summarized as follows: (i) the creation of active markets (referred to as exchanges) in which individuals and small employers can purchase health care insurance for themselves and their families or their employees and dependents, (ii) providing subsidies for premium costs to individuals and families based upon their income relative to federal poverty levels, (iii) mandating that individual consumers obtain and certain employers provide a minimum level of health care insurance, and providing for penalties or taxes on consumers and employers that do not comply with these mandates, (iv) expansion of private commercial insurance coverage generally through such reforms as prohibitions on denials of coverage for pre-existing conditions and elimination of lifetime or annual cost caps, and (v) expansion of existing public programs, including Medicaid, for individuals and families. The Congressional Budget Office ("CBO") estimates that in federal fiscal year 2016, 32 million consumers who are currently uninsured will become insured. To the extent all or any of those provisions produce the expected result, an increase in utilization of health care services by those who are currently avoiding or rationing their health care can be expected and bad debt expenses may be reduced. Associated with increased utilization will be increased variable and fixed costs of providing health care services, which may or may not be offset by increased revenues.

Some of the specific provisions of the Health Care Reform Act that may affect hospital operations, financial performance or financial conditions, including those of the Members of the CHI Credit Group, are described below. This listing is not, is not intended to be, nor should be considered by the reader as, comprehensive. The Health Care Reform Act is complex and comprehensive, and includes a myriad of new programs and initiatives and changes to existing programs, policies, practices and laws.

At this time, management cannot predict the aggregate effect of the Health Care Reform Act upon the CHI Credit Group.

- The annual Medicare market basket updates for hospitals will be reduced through September 30, 2019 and The market basket updates are subject to productivity adjustments, which will have a disproportionately negative effect upon those providers that are relatively more dependent upon Medicare than other providers. Additionally, the reductions in market basket updates will be effective prior to the periods during which insurance coverage and the insured consumer base will expand, which may have an interim negative effect on revenues. The combination of reductions to the market basket updates and the imposition of the productivity adjustments may, in some cases and in some years, result in reductions in Medicare payment per discharge on a year-to-year basis.

- Payments under the "Medicare Advantage" programs (Medicare managed care) will be reduced through September 30, 2019, which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans. Those beneficiaries may terminate their participation in those plans and opt for the traditional Medicare fee-for-service program. The reduction in payments to Medicare Advantage programs may also lead to decreased payments to providers by managed care companies operating Medicare Advantage programs. All or any of these outcomes will have a disproportionately negative effect upon those providers with relatively high dependence upon Medicare managed care revenues.

- Health care insurers are now required to include quality improvement covenants in their contracts with hospital providers, and are required to report their progress on such actions to the Secretary of Health and Human Services ("HHS"). Commencing January 1, 2015, health care insurers participating in the health insurance exchanges will be allowed to contract only with hospitals that have implemented programs designed to ensure patient safety and enhance quality of care. The effect of these provisions upon the process of negotiating contracts with insurers or the costs of implementing such programs cannot be predicted.

- Commencing October 1, 2012, a value-based purchasing program was established under the Medicare program designed to provide incentive payments to hospitals based on performance on quality and efficiency measures. These incentive payments are funded through a pool of money collected from all hospital providers.

- Commencing October 1, 2013, Medicare disproportionate share hospital ("DSH") payments will be reduced initially by 75%. DSH payments will be increased thereafter to account for the national rate of consumers who do not have health care insurance and are provided uncompensated care. Commencing October 1, 2013, each state's Medicaid DSH allotment from federal funds will be reduced.

- Expansion of Medicaid programs to a broader population with incomes up to 138% of federal poverty levels. CBO has estimated that 16 million consumers who are currently uninsured will become newly eligible for Medicaid through 2019 as a result of this expansion. Providers operating in markets with large Medicaid and uninsured populations are anticipated to benefit from increased revenues resulting from increased utilization and reductions in bad debt or uncompensated care. The increase in utilization can also be expected to increase in costs of providing that care, which may or may not be balanced by increased revenues. In *National Federation of Independent Business v. Sebelius*, the Supreme Court found that Medicaid expansion violated the Constitution by threatening states with the loss of their existing federal Medicaid matching funds if they fail to comply with the expansion.

- Commencing October 1, 2012, Medicare payments that would otherwise be made to hospitals that have a high rate of potentially preventable readmissions of Medicare patients for certain clinical conditions are reduced by specified percentages to account for those excess and "preventable" hospital readmissions.

- Commencing October 1, 2014, Medicare payments to certain hospitals for hospital-acquired conditions will be reduced by 1%. Commencing July 1, 2011, federal payments to states for Medicaid services related to health care-acquired conditions are prohibited.

- With varying effective dates, the Health Care Reform Act enhances the ability to detect and reduce waste, fraud, and abuse in public programs through provider enrollment screening, enhanced oversight periods for new providers and suppliers, and enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs, and by requiring Medicare and Medicaid program providers and suppliers to establish compliance programs. The Health Care Reform Act requires the development of a database to capture and share health care provider data across federal health care programs and provides for increased penalties for fraud and abuse violations, and increased funding for anti-fraud activities.

- Additional requirements for tax-exemption are now imposed upon tax-exempt hospitals, including obligations to adopt and publicize a financial assistance policy; limit charges to patients who qualify for financial assistance to the amount generally charged to insured patients; and control the billing and collection processes. Additionally, effective for tax years commencing March 23, 2012, tax-exempt hospitals must conduct a community needs assessment and adopt an implementation strategy to meet those identified needs. Failure to satisfy these conditions may result in the imposition of fines and the loss of tax-exempt status.

- The establishment of an Independent Payment Advisory Board to develop proposals to improve the quality of care and limitations on cost increases. Beginning January 15, 2019, if the Medicare growth rate exceeds the target set by the Health Care Reform Act, the Board is required to develop proposals to reduce the growth rate and require the Secretary of HHS to implement those proposals, unless Congress enacts legislation related to the proposals.

The Health Care Reform Act creates a Center for Medicare and Medicaid Innovation to test innovative payment and service delivery models and to implement various demonstration programs and pilot projects to test, evaluate, encourage and expand new payment structures and methodologies to reduce health care expenditures while maintaining or improving quality of care, including bundled payments under Medicare and Medicaid, and comparative effectiveness research programs that compare the clinical effectiveness of medical treatments and develop recommendations concerning practice guidelines and coverage determinations. Other provisions encourage the creation of new health care delivery programs, such as accountable care organizations or combinations of provider organizations, which voluntarily meet quality thresholds to share in the cost savings they achieve for the Medicare program. The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

Efforts to repeal provisions of the Health Care Reform Act are pending in Congress. In June 2012, the United States Supreme Court upheld most provisions of the Health Care Reform Act, including the requirement that individuals maintain health insurance. In its decision *National Federation of Independent Business v. Sebelius*, the United States Supreme Court also ruled that the federal government could not compel states to comply with the Health Care Reform Act's requirement to expand Medicaid by cutting off all the federal funds they receive for existing Medicaid programs. At this time it is not possible to predict the outcomes of the legislative attempts to repeal or amend the Health Care Reform Act, or to predict the impact of the November election on such attempts.

It is unclear how many states will decide not to implement the Medicaid expansion as a result of the Supreme Court's decision. In so doing, they would forgo a substantial amount of federal funding. However, several state governors have already expressed their intent not to implement the expansion. States that have taken affirmative steps to expand Medicaid coverage pursuant to the Health Care Reform Act are unaffected by the decision.

If a state were to decide not to implement the Medicaid expansion, low-income adults below the poverty line that are not eligible for the Medicaid program would likely be exempt from the individual mandate pursuant to certain exemptions provided for by the Health Care Reform Act, including an exemption for individuals for whom insurance premiums would be more than eight percent of their annual household income. In addition, a risk exists that low-income adults may decide to forgo purchasing insurance regardless of the cost subsidies provided by the Health Care Reform Act or the penalties imposed by the Health Care Reform Act. If that were to occur, health care providers may continue to incur high costs for uncompensated care furnished to the low-income, uninsured population. However, those same providers will continue to be affected by the reductions in federal funding provided for by the Health Care Reform Act discussed above.

Management of the CHI Credit Group Members is analyzing the Health Care Reform Act and will continue to do so in order to assess the effects of the legislation and evolving regulations on current and projected operations, financial performance and financial condition. However, management of the CHI Credit Group Members cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the legislation.

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 ("ARRA") includes several provisions that are intended to provide financial relief to the health care sector, including a requirement that states promptly reimburse health care providers, and a subsidy to the recently unemployed for health insurance premium costs. ARRA also established a framework for the implementation of a nationally-based health information technology program, including incentive payments commencing in 2011 to eligible health care providers to encourage implementation of health information technology and electronic health records. For more information on this program, see "- The HITECH Act" below.

Charity Care

Hospitals are permitted to obtain tax-exempt status under Code because the provision of health care historically has been treated as a "charitable" enterprise. This treatment arose before most Americans had health insurance, when charitable donations were required to fund the health care provided to the sick and disabled. Some commentators and others have taken the position that, with the onset of employer health insurance and governmental reimbursement programs, there is no longer any justification for special tax treatment for the health care industry, and the availability of tax-exempt status should be eliminated. Federal and state tax authorities are also beginning to demand that tax-exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits.

As described in " - Health Care Reform" above, the Health Care Reform Act imposes additional requirements for tax-exemption upon tax-exempt hospitals, including obligations to adopt and publicize a financial assistance policy; limit charges to patients who qualify for financial assistance to the amounts generally billed to insured patients; and control the billing and collection processes. Additionally, as noted above, effective for tax years commencing March 23, 2012, tax-exempt hospitals must conduct a community needs assessment and adopt an implementation strategy to meet those identified needs.

Failure to complete a community health needs assessment in any applicable three-year period can result in a penalty on the organization of up to $50,000, in addition to possible revocation of status as a section 501(c)(3) organization.

The Health Care Reform Act also imposes new reporting and disclosure requirements on tax-exempt hospital organizations. The IRS is required to review information about a hospital's community benefit activities at least once every three years. The Health Care Reform Act requires the Secretary of the Treasury, in consultation with the Secretary of HHS, to submit annually a report to Congress with information regarding the levels of charity care, bad debt expenses, unreimbursed costs of government programs, as well as costs incurred by tax-exempt hospitals for community benefit activities. The Secretary of the Treasury, in consultation with the Secretary of HHS, must conduct a study of the trends in these amounts, and subject a report on such study to Congress not later than five years after the date of enactment of the Health Care Reform Act. These statutorily mandated requirements for periodic review and submission of reports relating to community benefit provided by section 501(c)(3) hospital organizations may increase the likelihood that Congress will consider additional requirements for section 501(c)(3) hospital organizations in the future and may increase IRS scrutiny of particular 501(c)(3) hospital organizations.

Tax Matters

Tax-Exempt Status of the CHI Credit Group Members. The tax-exempt status of tax-exempt obligations issued for the benefit of the CHI Credit Group Members, presently depends upon the maintenance by the Corporation and each CHI Credit Group Member that receives or uses the proceeds of such obligations or owns or uses facilities financed with the proceeds of such obligations, of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for religious, charitable, educational and other exempt purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities that do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by modern healthcare organizations.

The primary adverse consequence to a tax-exempt entity found to be in violation of prohibitions against inurement or unlawful private benefit is the potential for revocation of tax-exempt status by the IRS. Although the IRS has not often revoked the 501(c)(3) tax-exempt status of an organization, it could do so in the future. The loss of tax-exempt status by even one Member of the CHI Credit Group could result in loss of tax exemption of all or any of the tax-exempt obligations of the CHI Credit Group retroactively to the date of issuance of such tax-exempt obligations, and defaults in covenants relating to such tax-exempt obligations would likely result. Loss of tax-exempt status could also result in substantial tax liabilities on income of affected CHI Credit Group Members. For these reasons, loss of tax-exempt status of any CHI Credit Group Member could have a material adverse effect on the financial condition of the CHI Credit Group, taken as a whole.

With increasing frequency, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax-exempt organizations that own and operate hospitals in lieu of revoking tax-exempt status or has required that certain transactions be altered, terminated or avoided in the future and/or has required governance or management changes. These penalties and obligations typically are imposed on the tax-exempt organization pursuant to a "closing agreement." Given the exemption risks involved in certain transactions of the Members of the CHI Credit Group, the CHI Credit Group may be at risk for incurring monetary and other liabilities imposed by the IRS. These liabilities could be materially adverse.

Less onerous sanctions have been enacted, which sanctions focus enforcement on private persons that transact business with an exempt organization rather than the exempt organization itself, but these sanctions do not replace the other remedies available to the IRS as mentioned above.

The Coordinated Examination Program ("CEP") of the IRS applies to tax-exempt health care organizations. CEP audits are conducted by teams of revenue agents. The CEP audit teams consider a wide range of possible issues, including the community benefit basis of exemption, private inurement and private benefit, partnerships and joint ventures, retirement plans and employee benefits, employment taxes, tax-exempt bond financing, political contributions and unrelated business taxable income. Members of the CHI Credit Group may be the subject of a CEP audit in the future. Management believes that it has and the Members of the CHI Credit Group have properly complied with all laws relating to tax-exempt status. Nevertheless, because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, a CEP audit could result in additional taxes, interest and penalties. A CEP audit could ultimately affect the tax-exempt status of a CHI Credit Group Member as well as the exclusion from gross income for federal income tax purposes of the interest payable on tax-exempt obligations of the Corporation.

As mentioned under "Health Care Reform" above, the Health Care Reform Act also contains new requirements for tax-exempt hospitals.

State Income Tax Exemption and Local Property Tax Exemption. It is likely that the loss by a CHI Credit Group Member of federal tax exemption would also result in a challenge to the state tax exemption of such CHI Credit Group Member. Depending on the circumstances, such event could be adverse and material.

Unrelated Business Taxable Income. The IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt hospitals with respect to their exempt activities and the generation of unrelated business taxable income ("UBTI"). The CHI Credit Group Members participate in activities that generate UBTI. Management believes it has properly accounted for and reported UBTI; nevertheless, an investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to unreported UBTI and in some cases could ultimately affect the tax-exempt status of a CHI Credit Group Member as well as the exclusion from gross income for federal income tax purposes of the interest payable on tax-exempt obligations of the Corporation.

Net Patient Service Revenues

Net patient revenues realized by the Members of the CHI Credit Group are derived from a variety of sources and vary among the individual facilities and their respective market areas and regions. Certain facilities and regions may realize substantially more revenues from private payment programs, such as managed care organizations, than do others.

A substantial portion of the net patient service revenues of the Members of the CHI Credit Group is derived from third-party payors that include the federal Medicare program, state Medicaid programs and private health plans and insurers, including health maintenance organizations and preferred provider organizations. Many of those programs make payments to Members of the CHI Credit Group in amounts that may not reflect the direct and indirect costs of the Members of the CHI Credit Group of providing services to patients.

The financial performance of the CHI Credit Group has been and could be in the future adversely affected by the financial position or the insolvency or bankruptcy of or other delay in receipt of payments from third-party payors that provide coverage for services to their patients.

Medicare. For the fiscal year ended June 30, 2012, the Corporation and its Participants received approximately 31% of net patient services revenues from Medicare. Medicare is a federal governmental health insurance system under which physicians, hospitals and other health care providers are reimbursed or paid directly for services provided to eligible elderly and disabled persons. Medicare is administered by CMS of DHHS. In order to achieve and maintain Medicare certification, a health care provider must meet CMS's "Conditions of Participation" on an ongoing basis, as determined by the state in which such provider is located and/or The Joint Commission.

The costs of providing a unit of care may exceed the revenues realized from Medicare for providing that service. Additionally, the aggregate costs to a provider of providing care to Medicare beneficiaries may exceed aggregate Medicare revenues received during the relevant fiscal period.

A substantial portion of the net patient service revenues of the CHI Credit Group is derived from the Medicare program (including capitated Medicare payments). As a result, the CHI Credit Group has a significant dependence on Medicare as a source of revenue. Because of this dependence, changes in the Medicare program may have a material effect on the CHI Credit Group. In particular, future reductions in Medicare reimbursement, or increases in Medicare reimbursement in amounts less than increases in the costs of providing care, may have a material adverse financial effect on the CHI Credit Group. The Health Care Reform Act has made significant changes to the Medicare program.

Substantially all of the Medicare revenues of the CHI Credit Group are derived from payments made for services rendered to Medicare beneficiaries under a prospective payment system, or PPS. Under a prospective payment system, the amount paid to the provider for an episode of care is established by federal regulation and is not related to the provider's charges or costs of providing that care. Presently, inpatient and outpatient services, skilled nursing care, and home health care are paid on the basis of a prospective payment system. Under inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group, or DRG. DRGs classify treatments for illnesses according to the estimated intensity of hospital resources necessary to furnish care for each principal diagnosis. All services paid under the PPS for hospital outpatient services are classified into groups called ambulatory payment classifications, or APCs. Services in each APC are similar clinically and in terms of the resources they require. A payment rate is established for each APC. The capital component of care is paid on a fully prospective basis.

From time to time, the factors used in calculating the prospective payments for units of service are modified by CMS, including DRGs, which may reduce or increase revenues for particular services.

In the Prospective Payment Final Rule for 2008 and in the Prospective Payment Final Rule for 2009 (together, the "IPPS Rules"), CMS included provisions preventing hospitals from assigning patient cases to DRGs with higher payments where a secondary diagnosis warranting higher payment is one of several specified health conditions and was acquired in the hospital. Specifically, the IPPS Rules identify certain conditions, including certain infections and serious preventable errors ("never events"), for which CMS will not reimburse hospitals unless the conditions were present at the time of admission. CMS has also announced its intent to identify additional conditions for which higher payment will be unavailable. Various HMOs and other private insurers have followed suit in refusing to pay for certain hospital-acquired conditions. There can be no assurance that these future payment limitations will not adversely affect the revenues of the CHI Credit Group. The occurrence of "never events" may be more likely to be publicized and may negatively impact a hospital's reputation, thereby reducing future utilization and potentially increasing the possibility of liability claims.

CMS has expanded a recently tested collection project using recovery audit contractors ("RACs") to further assure accurate payments to providers. RACs search for potentially improper Medicare payments from prior years that may not have been detected through CMS existing program integrity efforts. RACs use their own software and review processes to determine areas for review. Once a RAC identifies a potentially improper claim as a result of an audit, it applies an assessment to the provider's Medicare reimbursement in an amount estimated to equal the overpayment from the provider pending resolution of the audit. Such audits may result in reduced reimbursement for past alleged overpayments and may slow future Medicare payments to providers pending resolution of appeals process with RACs.

Additional payments may be made to individual providers. Hospitals that treat a disproportionately large number of low-income patients (Medicaid and Medicare patients eligible to receive supplemental Social Security income) currently receive additional payments in the form of disproportionate share payments. Additional payments are made to hospitals that treat patients who are more costly to treat than the average patient; these additional payments are referred to as "outlier payments." Hospitals are paid for a portion of their direct and indirect medical education costs. These additional payments are also subject to reductions and modifications in otherwise scheduled increases as a result of amendments to relevant statutory provisions.

Medicare currently pays for a portion of the costs of medical education at hospitals that have teaching programs. These payments are vulnerable to reduction or elimination. The direct and indirect medical education reimbursement programs have repeatedly emerged as targets in legislative efforts to reduce federal budget deficits. The Health Care Reform Act significantly changes the way Medicare reimburses teaching hospitals for graduate medical education. While it expands Medicare reimbursement opportunities for hospitals that have filled their Medicare-funded resident positions, it also redistributes these positions based on current usage rates. Hospitals that have unfilled Medicare-funded resident positions in all of its three most recent cost reporting years will be at risk of losing funding for these positions. Reduction in such payments could have a material and adverse effect on the financial condition of the Corporation and the other Members of the CHI Credit Group.

The Health Care Reform Act has made several changes to the Medicare program, ranging from changes to amounts payable to providers through imposition, directly or indirectly, of quality measures. Some of those changes are summarized above under the heading, "Health Care Reform Act."

Additionally, there is a potential for a 27.4% cut to Medicare provider payments, effective in 2013, if Congress does not enact legislation to alter the sustainable growth rate. Therefore, any failure to enact legislation addressing the potential reduction in Medicare physician fees would have a substantial and material adverse affect on the financial conditions of the CHI Credit Group and the healthcare industry as a whole.

Medicaid. For the fiscal year ended June 30, 2012, the Corporation and its Participants received approximately 8% of net patient services revenues from various state Medicaid programs. Medicaid is a health insurance program for certain low-income and needy individuals that is jointly funded by the federal government and the states. Pursuant to broad federal guidelines, each state establishes its own eligibility standards; determines the type, amount, duration, and scope of services; sets the payment rates for such services; and administers its own programs. As an alternative to Medicaid, some states operate under a waiver of some basic Medicaid requirements.

Under the Medicaid program, the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for such medical and health services is made to providers in amounts determined in accordance with procedures and standards established by state law under federal guidelines. The federal and state governments, including those states in which facilities of the CHI Credit Group are located, have considered, and are continuing to consider, changes to Medicaid funding, particularly in light of the budget crises facing many states.

Payment for Medicaid patients is subject to appropriation by the respective state legislatures of sufficient funds to pay the incurred patient obligations. Most state governments, including the states in which the CHI Credit Group Members are located, are experiencing considerable budgetary challenges. Many states have imposed taxes on hospitals and reduced hospital Medicaid reimbursement rates in order to balance their budgets, creating yet another strain on top-line revenue growth that hospital management must address. Delays in appropriations and state budget deficits that may occur from time to time create a risk that payment for services to Medicaid patients will be withheld or delayed.

The federal government continues to explore options for a long-term solution to the funding difficulties with Medicaid. Certain additional proposals being examined may ultimately result in reduced federal Medicaid funding to the states, which could adversely impact the amount received by the CHI Credit Group.

The Health Care Reform Act makes changes to Medicaid funding and substantially increases the potential number of Medicaid beneficiaries, as well as federal financial support for that increased enrollment, and expanded the RAC Medicare program to include Medicaid, using state-based RAC contracts. The Corporation cannot predict the effect of these changes to the Medicaid program on the operations, results from operations or financial condition of the Corporation or the CHI Credit Group.

Private Health Plans and Managed Care. Managed care plans generally use discounts and other economic incentives to reduce or limit their cost and utilization of health care services. Payments to the CHI Credit Group from managed care plans typically are lower than those received from traditional indemnity/commercial insurers.

The CHI Credit Group Members' ability to develop and expand their services and, therefore, profitability, is dependent upon their ability to enter into contracts with third-party payors at competitive rates. However, the current economic climate has resulted in lower rate increases from commercial healthcare insurers. In addition, current economic conditions and increased federal and state regulation may pressure insurers' net profits, resulting in hospitals facing tougher negotiation tactics with payors and possibly more threats of contract termination, which can be disruptive to patient volumes. There can be no assurance that they will be able to attract third-party payors, and where they do, no assurance can be given that they will be able to contract with such payors on advantageous terms. The inability of the CHI Credit Group Members to contract with a sufficient number of such payors on advantageous terms could have a material adverse effect on the CHI Credit Group Members' future operations and financial results.

Defined broadly, for the fiscal year ended June 30, 2012, managed care payments constituted approximately 41% of net patient services revenues of the Corporation and its Participants.

The Health Care Reform Act imposes, over time, increased regulation of the industry, the use and availability of state-based exchanges in which health insurance can be purchased by certain groups and segments of the population, the extension of subsidies and tax credits for premium payments by some consumers and employers and the imposition upon commercial insurers of certain terms and conditions that must be included in contracts with providers. In addition, the Health Care Reform Act imposes many new obligations on states related to health care insurance. The effects of any amendment or repeal of the Health Care Reform Act cannot be predicted. It is unclear how the increased federal oversight of state health care may affect future state oversight or affect the CHI Credit Group Members. The effects of these changes upon the financial condition of any third-party payor that offer health care insurance, rates paid by third-party payors to providers and thus the revenues of the CHI Credit Group Members, and upon the operations, results of operations and financial condition of the CHI Credit Group Members cannot be predicted.

Many preferred provider organizations, or PPOs, and health maintenance organizations, or HMOs, currently pay providers on a negotiated fee-for-service basis or on a fixed rate per day of care, which, in each case, usually is discounted from the typical charges for the care provided. The discounts offered to HMOs and PPOs may result in payment to a provider that is less than its actual cost. Additionally, the volume of patients directed to a provider may vary significantly from projections used to formulate the discount, and/or changes in the utilization of certain services offered by the provider may be significant and unexpected, thus further reducing reviews and jeopardizing the provider's ability to contain costs.

Some HMOs employ a "capitation" payment method under which providers are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care through that provider. In a capitation payment system, the provider assumes a financial risk for the cost and scope of care given to such HMO's enrollees. In some cases, the capitated payment covers the total cost of care provided. However, if payment under an HMO or PPO contract is insufficient to meet the provider's costs of care or if utilization by such enrollees materially exceeds projections, the financial condition of the provider could erode rapidly and significantly.

The Corporation anticipates that the Health Care Reform Act will substantially alter the commercial health care insurance industry. The Health Care Reform Act imposes, over time, increased regulation of the industry, the use and availability of state-based exchanges in which health insurance can be purchased by certain groups and segments of the population, the extension of subsidies and tax credits for premium payments by some consumers and employers and the imposition upon commercial insurers of certain terms and conditions that must be included in contracts with providers. In addition, the Health Care Reform Act imposes many new obligations on states related to health care insurance. It is unclear how the increased federal oversight of state health care may affect future state oversight or affect the Corporation and the other Members of the CHI Credit Group. The effects of these changes upon the financial condition of any third-party payor that offer health care insurance, rates paid by third-party payors to providers and thus the revenues of the CHI Credit Group, and upon the operations, results of operations and financial condition of the CHI Credit Group cannot be predicted.

As a consequence of the above factors, the effect of managed care on the CHI Credit Group's financial condition is difficult to predict and may be different in the future than the financial statements for the current periods reflect.

State Budgets

Many states are currently facing significant financial challenges, including erosion of general fund tax revenues, falling real estate values and associated reduction in property tax revenues, slowing economic growth and higher unemployment, each of which may continue or worsen over the coming years. The financial challenges facing states may negatively affect hospitals in a number of ways, including, but not limited to, a greater number of indigent, uninsured and underinsured patients who are unable to pay for their care or access primary care facilities and a greater number of individuals who qualify for Medicaid and/or reductions in Medicaid reimbursement rates or delays in payments by states of amounts owed to providers and the imposition of hospital taxes. It cannot be predicted what actions will be taken in the current and future years by the states in which the facilities of the CHI Credit Group are located to address these financial problems.

Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures

Health plans, Medicare, Medicaid, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and providers. The Health Care Reform Act shifts payments from paying for volume to paying for value, based on various health outcome measures. Published rankings such as "score cards," "pay for performance" and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospitals and the members of their medical staffs and other providers and to influence the behavior of consumers and providers such as the CHI Credit Group Members. Currently prevalent are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction, and investment in health information technology. Measures of performance set by others that characterize a provider negatively may adversely affect its reputation and financial condition.

Enforcement Affecting Clinical Research

In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also increased enforcement of laws and regulations governing the conduct of clinical trials at hospitals. DHHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibility for monitoring federally funded research. In addition, the National Institutes of Health significantly increased the number of facility inspections that these agencies perform. The Food and Drug Administration ("FDA") also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. Moreover, the Office of Inspector General (the "OIG"), in its recent "Work Plans" has included several enforcement initiatives related to reimbursement for experimental drugs and devices (including kickback concerns) and has issued compliance program guidance directed at recipients of extramural research awards from the National Institutes of Health and other agencies of the U.S. Public Health Service. These agencies' enforcement powers range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire research programs, and errors in billing of the Medicare Program for care provided to patients enrolled in clinical trials that is not eligible for Medicare reimbursement can subject the Members of the CHI Credit Group to sanctions as well as repayment obligations.

Civil and Criminal Fraud and Abuse Laws and Enforcement

Federal and state health care fraud and abuse laws regulate both the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to such beneficiaries. Under these laws, individuals and organizations can be penalized for submitting claims for services that are not provided, billed in a manner other than as actually provided, not medically necessary, provided by an improper person, accompanied by an illegal inducement to utilize or refrain from utilizing a service or product, or billed in a manner that does not otherwise comply with applicable government requirements.

Federal and state governments have a range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud and abuse, including exclusion of the provider from participation in the Medicare/Medicaid programs, fines, civil monetary penalties, and suspension of payments and, in the case of individuals, imprisonment. Fraud and abuse cases may be prosecuted by one or more government entities and/or private individuals, and more than one of the available penalties may be imposed for each violation.

Based upon the prohibited activity in which the provider has engaged, governmental agencies and officials may bring actions against providers under civil or criminal False Claims Acts, statutes prohibiting referrals for compensation or fee-splitting, or the "Stark law," which prohibits certain referrals by a physician to certain organizations in which such physician has a financial relationship. The civil and criminal monetary assessments and penalties may be substantial. Additionally, the provider may be denied participation in the Medicare and/or Medicaid programs. Recent changes to the regulations issued under the Stark law have rendered illegal a number of common arrangements under which physician-owned entities provide services and/or equipment to hospitals and may increase risk of violation due to lack of clarity of the technical requirements. If and to the extent any Member of the CHI Credit Group engaged in a prohibited activity and judicial or administrative proceedings concluded adversely to such Member, such outcome could materially adversely affect the CHI Credit Group.

The Corporation routinely conducts internal compliance audits of contractual arrangements with physicians. In the course of such audits, it has and may continue to identify arrangements that may be noncompliant with the Stark law. The Corporation has recently identified several arrangements with physicians that may be noncompliant because the related CHI Credit Group Member is unable to locate written agreements governing the arrangements. The Corporation is currently preparing correspondence to make a voluntary disclosure to CMS pursuant to the CMS Voluntary Self-Referral Disclosure Protocol. Although the result of such disclosure and likelihood or magnitude of a settlement is not known at this time, based on the existing facts and circumstances, it is management's current expectation that the outcome will not materially adversely affect the financial condition of the CHI Credit Group.

The Health Care Reform Act authorizes the Secretary of DHHS to exclude a provider's participation in Medicare and Medicaid, as well as suspend payments to a provider pending an investigation or prosecution of a credible allegation of fraud against the provider. The Health Care Reform Act also amends the federal False Claims Act ("FCA") by expanding the numbers of activities that are subject to civil monetary penalties to include, among other things, failure to report and return known overpayments within statutory limits. The Health Care Reform Act additionally amended the Anti-Kickback Law to provide that a claim that includes items or services resulting from a violation of the Anti-Kickback Law now constitutes a false or fraudulent claim for purposes of the FCA. The IRS has also taken the position that hospitals that are in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status.

The Members of the CHI Credit Group have internal policies and procedures and have developed and implemented a compliance program that management of the Corporation believes effectively reduces exposure for violations of these laws. However, because the government's enforcement efforts presently are widespread within the industry and may vary from region to region, there can be no assurance that the compliance program will significantly reduce or eliminate the exposure of the Members of the CHI Credit Group to civil or criminal sanctions or adverse administrative determinations.

Implantable Cardioverter Defibrillators Investigations

In 2010, the DOJ served subpoenas on and issued letters to a number of hospitals and health systems across the country as part of a fraud investigation into whether hospitals billed Medicare for implantable cardioverter defibrillators for patients whose conditions did not satisfy coverage criteria set forth in CMS National Coverage Determination. As the investigation is being conducted under the False Claims Act ("FCA"), those targeted by the government are at risk for significant damages under the FCA's treble damages and civil penalties provision. Certain CHI Credit Group Members are under review by the DOJ in connection with this matter. See **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP – PART VII – Legal Proceedings – Pending Litigation/Regulatory Matters." At this time management of the CHI Credit Group cannot predict what effect, if any, this review or any resulting claims could have on the CHI Credit Group.

Medicare and Medicaid Audits

Health care organizations participating in Medicare and Medicaid are subject from time to time to audits and other investigations relating to various aspects of their operations and billing practices, as well as to retroactive audit adjustments with respect to reimbursements claimed under these programs. The CHI Credit Group Members receive payments for various services provided to Medicare patients based upon charges or other reimbursement methodologies that are then reconciled annually based upon the preparation and submission of annual cost reports. Estimates for the annual cost reports are reflected as amounts due to/from third-party payors and represent several years of open cost reports due to time delays in the fiscal intermediaries' audits and the basic complexity of billing and reimbursement regulations. These estimates are adjusted periodically based upon correspondence received from the fiscal intermediary. Medicare and Medicaid regulations also provide for withholding reimbursement payments in certain circumstances. New billing rules and reporting requirements for which there is no clear guidance from CMS or state Medicaid agencies could result in claims submissions being considered inaccurate. In addition, under certain circumstances, payments may be determined to have been made as a consequence of improper claims subject to the FCA or other federal statutes, subjecting a CHI Credit Group Member to civil or criminal sanctions. The penalties for violations may include an obligation to refund money to the Medicare or Medicaid program, payment of criminal or civil fines and, for serious or repeated violations, exclusion from participation in federal health programs. Management of the CHI Credit Group is not aware of any situation whereby a material Medicare payment is being withheld from any CHI Credit Group Member.

Medicare audits may result in reduced reimbursement or repayment obligations related to past alleged overpayments and may also delay Medicare payments to providers pending resolution of the appeals process. The Health Care Reform Act explicitly gives DHHS the authority to suspend Medicare and Medicaid payments to a provider or supplier during a pending investigation of fraud. The Health Care Reform Act also amended certain provisions of the FCA to include retention of overpayments as a violation. It also added provisions respecting the timing of the obligation to identify, report and reimburse overpayments. The effect of these changes on existing programs and systems of the Members of the CHI Credit Group cannot be predicted.

Patient Records and Patient Confidentiality

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), along with new privacy rules arising from federal and state statutes, address the confidentiality of individuals' health information. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient. HIPAA's confidentiality provisions extend not only to patient medical records, but also to a wide variety of health care clinical and financial settings where patient privacy restrictions often impose new communication, operational, accounting and billing restrictions. These add costs and create potentially unanticipated sources of legal liability.

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from monetary penalties and/or imprisonment if the information was obtained or used with the intent to sell, transfer or use the information for commercial advantage, personal gain or malicious harm.

The HITECH Act

Provisions in the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), enacted as part of ARRA, increase the maximum civil monetary penalties for violations of HIPAA and grant enforcement authority of HIPAA to state attorneys general. The HITECH Act also (i) extends the reach of HIPAA beyond "covered entities," (ii) imposes a breach notification requirement on HIPAA covered entities, (iii) limits certain uses and disclosures of individually identifiable information and (iv) restricts covered entities' marketing communications.

The HITECH Act also established programs under Medicare and Medicaid to provide incentive payments for the "meaningful use" of certified electronic health record ("EHR") technology. Beginning in 2011, the Medicare and Medicaid EHR incentive programs provide incentive payments to eligible professionals and eligible hospitals for demonstrating meaningful use of certified EHR technology. Health care providers demonstrate their meaningful use of EHR technology by meeting objectives specified by the Centers for Medicare and Medicaid Services for using health information technology and by reporting on specified clinical quality measures. Beginning in 2015, hospitals and physicians who have not satisfied the performance and reporting criteria for demonstrating meaningful use will have their Medicare payments significantly reduced.

Security Breaches and Unauthorized Releases of Personal Information

Federal and state authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. Many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed. State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider's reputation and materially adversely affect business operations.

Patient Transfers

A federal "anti-dumping" statute imposes certain requirements that must be met before transferring a patient to another facility. Failure to comply with the law can result in exclusion from the Medicare and/or Medicaid programs as well as civil and criminal penalties. Failure of any of the Members of the CHI Credit Group to meet its responsibilities under the law could adversely affect the financial condition of such Member.

Waiver Programs

Hospitals are engaged in programs that waive certain Medicare coinsurance and/or deductible amounts. Such waiver programs may be considered to be in violation of certain rules and policies applicable to the Medicare program and may be subject to enforcement action. The CHI Credit Group Members may at times waive certain Medicare coinsurance and/or deductible amounts. If an agency or court were to conclude that such waivers violate the applicable law, there is a possibility that the Member involved could be assessed fines, which could be substantial, that certain Medicare payments might be withheld or, in a serious case, that the Member could be excluded from the Medicare program. While management is not aware of any challenge or investigation with respect to such matters, there can be no assurance that such challenge or investigation will not occur in the future.

Indigent Care

Tax-exempt hospitals often treat large numbers of "indigent" patients who, for various reasons, are unable to pay for their medical care. Urban hospitals in particular may be susceptible to economic and political changes that could increase the number of indigent persons or the responsibility for caring for this population. The depressed economy has affected, and continues to affect, the number of employed individuals who have health insurance coverage and their ability of patients to pay for their care. As a result of the decline in the number of insured, hospitals are experiencing a shift in payer mix to self-pay, Medicaid and charity care, all of which provide significantly decreased reimbursement. However, as described herein, one of the objectives of the Health Care Reform Act has been to extend the availability and affordability of health care insurance to those segments of the population who have not been able to afford health care insurance or who have not had access to health care services. As a consequence, a reduction in the volume of patients who have historically been afforded care under indigent care programs is probable. Changes in governmental policy, which may result in coverage exclusions under local, state and federal healthcare programs (including Medicare and Medicaid) may increase the frequency and severity of indigent treatment in such hospitals. It is also possible that future legislation could require that tax-exempt hospitals maintain minimum levels of indigent care as a condition to federal income tax exemption or local property tax exemption. In sum, indigent care commitments of the CHI Credit Group Members could constitute a material and adverse financial risk in the future.

Physician Alliances and Affiliation

Many hospitals and health systems, including the Members of the CHI Credit Group, are pursuing strategic alliances with physicians that may be capital intensive and may create certain business and legal liabilities for the related hospital or health system. These alliances range from formalized relationships for managed care contracting to full ownership of physician practices and integration of the professional and institutional components of medical care in a unified delivery model. The Health Care Reform Act encourages the development of health care delivery models that are designed to enhance quality and reduce cost and that will effectively require greater integration between and collaboration among hospitals and physicians by allowing accountable care organizations ("ACOs") that meet quality thresholds to share in the savings achieved for the Medicare Program. The Health Care Reform Act requires the Secretary of HHS to implement a shared savings program through ACOs requiring integration between hospitals and physicians that will deliver health care services to Medicare beneficiaries, and to implementation a demonstration project to develop ACOs for pediatric patients under the Medicaid program.

To qualify as an ACO, organizations must agree to be accountable for the overall care of their Medicare beneficiaries, have adequate participation of primary care physicians, define processes to promote evidence-based medicine, report on quality and costs, and coordinate care. The shared savings program was established on January 1, 2012. In November 2011, CMS published the final rules regarding ACOs. Also, the Federal Trade Commission ("FTC") and Department of Justice ("DOJ") issued a joint statement of antitrust enforcement policy as it applied to ACOs; CMS and OIG issued a joint notice on waivers of the Anti-kickback Statute, Stark law and Civil Monetary Penalty laws; and the IRS issued a notice and fact sheet on the impact on tax-exempt organizations of participating in ACOs. The regulation is complex and it remains unclear whether the qualification requirements will be a formidable barrier. It is probable that hospital participants in ACOs will have to marshal a large upfront financial investment to form unique and untested ACO structures, which may or may not succeed in gaining qualification. For those that do qualify, it is not clear if the savings will be adequate to recoup the initial investment. In addition, although the regulation provides for waivers of certain federal laws, there may remain regulatory risks for participating hospitals, as well as financial and operational risks. In particular, since the federal ACO regulation would not preempt state law, providers in any state participating as a federal ACO must be organized and operated in compliance with such state's existing statutes and regulations. It remains unclear whether providers will pursue federal ACO status or whether the required investment would be warranted by increased payment. Nevertheless, it is anticipated that private insurers may seek to establish similar incentives for providers, while requiring less infrastructural and organizational change. The potential impacts of these initiatives and the regulation for ACOs are unknown, but introduce greater risk and complexity to health care finance and operations.

In addition to ACOs, these integration strategies take many forms, including management service organizations ("MSOs") or physician-hospital organizations ("PHOs"), which may provide a combination of financial and managed care assistance, as well as management, facilities and equipment to groups of physicians. Other integration structures include hospital-based clinics or medical practice foundations, which may purchase and operate physician practices.

Often, the sponsoring hospital or health system will be the primary capital source for such alliances. Depending on the size and organizational characteristics of a particular development, these capital requirements may be substantial. While there are many benefits which may be derived from such alliances, most are relatively new developments with uncertain outcomes, and, therefore, invested capital is subject to risk of loss.

All such integrated delivery developments carry with them the potential for legal or regulatory risks in varying degrees. Such developments may call into question compliance with the anti-referral laws and relevant antitrust laws (discussed below under "Antitrust"). Such developments may also subject the CHI Credit Group Members to state insurance department regulation. Questions of federal or state tax exemption may arise in certain types of developments or as a result of formation, operation or future modification of such developments. MSOs that operate at a deficit over an extended period of time may raise significant risks of investigation or challenge regarding tax exemption or compliance with the anti-referral laws. In addition, depending on the type of development, a wide range of governmental billing and reimbursement issues may arise, including questions of the authorization of the entity to bill or collect revenue for or on behalf of the physicians involved. Other legal and regulatory risks may arise, relating to employment, pension and benefits, and corporate practice of medicine, particularly in the current atmosphere of frequent and often unpredictable changes in federal and state legal requirements regarding healthcare. There can be no assurance that such issues and risks will not lead to material adverse consequences in the future.

Hospital Affiliation, Merger, Acquisition and Disposition

As with many multi-hospital systems, the Corporation plans for, evaluates and pursues potential merger and affiliation candidates on a consistent basis as part of its overall strategic planning and development process. Discussions with respect to affiliation, merger, acquisition, disposition, or change of use of existing facilities, including those which may affect Members of the CHI Credit Group, are held on a frequent, and usually confidential, basis with other parties and may include the execution of letters of intent. As a result, it is probable that the organizations and assets that currently make up the CHI Credit Group will change from time to time and it is probable that new hospitals will be added or existing hospitals removed as CHI Credit Group Members in the future.

As part of its on-going planning and property management functions, the Corporation reviews the use, compatibility and business viability of many of the Corporation's operations, including the Members of the CHI Credit Group, and from time to time the Corporation may pursue changes in the use of, or disposition of, various assets of the CHI Credit Group, including hospital facilities. Likewise, the Corporation occasionally receives offers from, or conducts discussions with, third parties about the potential sale of some of the operations and properties which are a part of the CHI Credit Group. The Capital Obligation Document does not prohibit a CHI Credit Group Member from withdrawing from the CHI Credit Group or from selling its facilities.

In addition to relationships with other hospitals and physicians, the Corporation may consider investments, ventures, affiliations, development and acquisition of other health care-related entities. These may include home health care, long-term care entities or operations, infusion providers, pharmaceutical providers, and other health care enterprises that support the overall operations of the CHI Credit Group Members. In addition, the CHI Credit Group Members may pursue such transactions with health insurers, HMOs, preferred provider organizations, third-party administrators and other health insurance-related businesses. Because of the integration occurring throughout the health care field, management may consider such arrangements if there is a perceived strategic or operational benefit for the CHI Credit Group. Any such initiative may involve significant capital commitments and/or capital or operating risk (including, potentially, insurance risk) in a business in which the CHI Credit Group Members may have less expertise than in hospital operations. There can be no assurance that these projects, if pursued, will not lead to material adverse consequences to the CHI Credit Group.

Currently, certain Members of the CHI Credit Group also have operating affiliations and joint ventures with other nonprofit and for profit corporations. In certain instances, such affiliates may conduct operations that are of strategic importance to the applicable CHI Credit Group Member, or their operations may subject the CHI Credit Group Member to potential legal or financial liabilities. In certain cases, CHI Credit Group Members fund the affiliates on a start-up or ongoing basis, and this funding may be significant.

For more information regarding the affiliations, mergers, acquisitions and dispositions involving the CHI Credit Group, see "BONDHOLDERS' RISKS – Physician Alliances and Affiliation" and **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP– PART IV – Management's Discussion and Analysis – Potential Strategic Acquisitions, Affiliations and Divestitures."

Antitrust

Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third party contracting, physician relations and joint venture, merger, vertical merger formation of provider networks, diversification of hospitals into non-traditional hospital services, affiliation and acquisition activities. At various times, a CHI Credit Group Member or Members may be subject to an investigation or inquiry by a governmental agency charged with the enforcement of the antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. Common areas of potential liability are joint action among providers with respect to payor contracting and medical staff credentialing. With respect to payor contracting, the CHI Credit Group Members may, from time to time, be involved in joint contracting activity with hospitals or other providers. The precise degree to which this or similar joint contracting activities may expose the participants to antitrust risk from governmental or private sources is dependent on a myriad of factual matters that may change from time to time. Physicians who are subject to adverse peer review proceedings may file federal antitrust actions against hospitals and seek treble damages. Hospitals, including the CHI Credit Group Members, regularly have disputes regarding credentialing and peer review, and may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may also be liable with respect to such indemnity.

Another potential area of liability is merger and affiliation activity if a Member's local market power in the inpatient hospital market or related healthcare business becomes too great. In addition, the creation of market power or monopoly power through contracting with a high percentage of physicians within a given market may result in antitrust risks.

From time to time, the CHI Credit Group Members are or may be involved with all of these types of activities, and it cannot be predicted in general when or to what extent liability may arise, if any. Liability in any of these or other trade regulation areas may be substantial, depending on the facts and circumstances of each case.

Risks in Healthcare Delivery

General. Efforts by health insurers and governmental agencies to limit the cost of hospital service and to reduce utilization of hospital facilities may reduce future revenues.

Through various combinations of changes in governmental policy, competition, advances in technology and treatment, and changes in payment methodology to reduce incentives for inpatient hospital utilization, inpatient hospitalizations in certain geographic areas have generally decreased in recent years. As a result, hospitals in many areas of the United States are considered to have significant excess capacity. It is probable that these trends in specific markets will continue, and the factors mentioned above will continue to create operational and economic uncertainty for hospitals. Hospital operations are complex and, as a result, hospitals are subject to significant operating risk. Certain risks or combinations of risks that are now unanticipated may have material adverse results in the future. It is not practical to enumerate each and every operating risk which may result from hospital operations. However, certain risks relating to hospital operations are discussed below.

Competition. Increased competition from a wide variety of potential sources, including, but not limited to, other hospitals, inpatient and outpatient healthcare facilities, clinics, physicians and others, may adversely affect the utilization and/or revenues of the CHI Credit Group Members. Existing and potential competitors may not be subject to various regulations and restrictions applicable to the CHI Credit Group Members, and may be more flexible in their ability to adapt to competitive opportunities and risks. Certain new competitors, such as home health and infusion providers, and certain niche providers, such as specialized cardiology or oncology companies, specifically target hospital patients as their prime source of revenue growth. Some of these companies have aggressive business and marketing plans, and some are well capitalized. Regardless of any moratorium that may be imposed from time to time on such types of competition, if these competitors are successful, some of the most profitable aspects of inpatient hospital operations may be stripped away, and/or overall hospital utilization may decline further. Competition may, in the future, arise from new sources not currently anticipated or prevalent.

Staffing Shortages. From time to time, the healthcare industry suffers from a scarcity of nursing personnel, respiratory therapists, pharmacists and other qualified health care technicians and personnel. In addition, aging medical staffs and difficulties in recruiting individuals to the medical profession are predicted to result in physician shortages. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for physicians and other health care professionals, coupled with increased recruiting and retention costs may increase hospital operating costs, possibly significantly. This trend could have a material adverse impact on the financial conditions and results of operations of hospitals. This scarcity may further be intensified if utilization of health care services increases as a consequence of the Health Care Reform Act's expansion of the number of insured consumers.

Labor Relations. Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Certain of the CHI Credit Group Members have employees covered by collective bargaining agreements.

Physician Relations. The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges, or who have such membership or privileges curtailed, denied or revoked often file legal actions against hospitals. Such actions may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties. All hospitals, including those owned and operated by the Members of the CHI Credit Group, are subject to such risks.

Physician Contracting. The Members of the CHI Credit Group may contract with physician organizations (such as independent physician associations and physician-hospital organizations) to arrange for the provision of physician and ancillary services. Because physician organizations are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with the physician organizations.

The success of the CHI Credit Group will be partially dependent upon its ability to attract physicians to join the physician organizations and to attract physician organizations to participate in their networks, and upon the ability of the physicians, including the employed physicians, to perform their obligations and deliver high quality patient care in a cost-effective manner. There can be no assurance that the Members of the CHI Credit Group will be able to attract and retain the requisite number of physicians, or that such physicians will deliver high quality health care services. Without impaneling a sufficient number and type of providers, the CHI Credit Group could fail to be competitive, could fail to keep or attract payor contracts, or could be prohibited from operating until its panel provided adequate access to patients. Such occurrences could have a material adverse effect on the business or operations of the CHI Credit Group.

Technology and Services; Information Services. The ability to adequately price and bill healthcare services and to accurately report financial results depends on the integrity of the data stored within information systems. Information systems require an ongoing commitment of significant resources to maintain, protect and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards. There can be no assurance that efforts to upgrade and expand information systems capabilities, protect and enhance these systems, and develop new systems to keep pace with continuing changes in information processing technology will be successful or that additional systems issues will not arise in the future.

Electronic media are also increasingly being used in clinical operations, including the conversion from paper to electronic medical records, computerization of order entry functions and the implementation of clinical decision-support software. The reliance on information technology for these purposes imposes new expectations on physicians and other workforce members to be adept in using and managing electronic systems. It also introduces risks related to patient safety, and to the privacy, accessibility and preservation of health information. See "Patient Records and Patient Confidentiality" above. Technology malfunctions or failure to understand and use information systems properly could result in the dissemination of or reliance on inaccurate information, as well as in disputes with patients, physicians and other health care professionals. Health information systems may also be subject to different or higher standards or greater regulation than other information technology or the paper-based systems previously used by health care providers, which may increase the cost, complexity and risks of operations. All of these risks may have adverse consequences on hospitals and health care providers.

The CHI Credit Group Members have implemented a new clinical information system and billing system, including electronic health record, as described in Appendix A. Such implementation can impact productivity, billing, and collections for both the new system and legacy systems. The CHI Credit Group is testing and training its staff for use of the system, but there can be no assurance that the system will function as designed.

Future government regulation and adherence to technological advances could result in an increased need of the Obligated Group to implement new technology. Such implementation could be costly and is subject to cost overruns and delays in application, which could negatively affect the financial condition of the CHI Credit Group.

CMS announced required transitions for medical diagnosis and procedure coding. Such changes will affect coding for everyone covered by HIPAA and must be used on all HIPAA transactions, including outpatient claims with dates of service, and inpatient claims with dates of discharge on and after October 1, 2014. If such changes are not effectively impacted, claims and other transactions could be rejected and would be required to be resubmitted. In addition, standards for electronic health care transactions are also required to be changed, including transactions for claims, eligibility inquiries and remittance advices. If providers do not conduct electronic health transactions consistent with such changes, they could experience delays in claim reimbursement.

Preparing for such new requirements, including potential updated software installation, staff training, changes to business operations and workflows, internal and external testing will take time. In addition, there is no assurance that the CHI Credit Group will timely or adequately implement such changes, resulting in delays in reimbursement discussed above, which could negatively affect the operations of the CHI Credit Group.

Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety and outpatient healthcare delivery may reduce utilization and revenues of the CHI Credit Group Members in the future. Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated, and costly, equipment and services for diagnosis and treatment. The acquisition and operation of certain equipment or services may continue to be a significant factor in hospital utilization, but the ability of the CHI Credit Group Members to offer such equipment or services may be subject to the availability of equipment or specialists, governmental approval or the ability to finance such acquisitions or operations.

Cost of Capital. From time to time, Congress has considered and is considering revisions to the Internal Revenue Code that may prevent or limit access to tax-exempt debt market to borrowers or issuers such as the CHI Credit Group Members. Such legislation, if enacted into law, may have the effect of increasing the capital costs of the CHI Credit Group Members.

Licensing, Surveys, Investigations and Audits

Health facilities, including those of the CHI Credit Group Members, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, state licensing agencies, private payors and The Joint Commission. Renewal and continuance of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by a CHI Credit Group Member. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could cause a loss or reduction in a CHI Credit Group Member's scope of licensure, certification or accreditation, or could reduce the payment received or require repayment of amounts previously remitted.

Management of the Corporation currently anticipates no difficulty renewing or continuing currently held licenses, certifications or accreditations, nor does it anticipate a reduction in third-party payments from such events which would materially adversely affect the operations or financial condition of the CHI Credit Group. Nevertheless, actions in any of these areas could result in the loss of utilization or revenues, or the CHI Credit Group Members' ability to operate all or a portion of their health facilities, and, consequently, could have a material and adverse effect on the CHI Credit Group's ability to make the debt service payments relating to the Bonds.

Environmental Laws and Regulations

Healthcare providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, hospital operations or facilities and properties owned or operated by hospitals. Among the types of regulatory requirements faced by healthcare providers are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, hospital, medical and infectious waste, polychlorinated biphenyls, and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements.

In their role as owners and operators of properties or facilities, healthcare providers may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off the property. Typical healthcare operations include, in various combinations, the handling, use, storage, transportation, disposal and discharge of infectious, toxic, radioactive, flammable and other hazardous materials and wastes, pollutants or contaminants. For this reason, healthcare operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations or increase their cost or both; may result in legal liability, damages, injunctions or fines; or may trigger investigations, administrative proceedings, penalties or other governmental agency actions. There can be no assurance that the Members of the CHI Credit Group will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Members of the CHI Credit Group.

At the present time, management of the Corporation is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues, or any instance of contamination, which, if determined adversely to the Members of the CHI Credit Group, would have material adverse consequences to the CHI Credit Group.

Bankruptcy

In the event of bankruptcy of the Corporation or any future Obligated Group Member, the rights and remedies of the Bondholders are subject to various provisions of the federal Bankruptcy Code. If the Corporation or any future Obligated Group Member were to file a petition in bankruptcy, payments made by that Obligated Group Member during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of such Obligated Group Member's liquidation. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation or any future Obligated Group Member and its property, and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of a Bond Trustee and the CHI Trustee. If the bankruptcy court so ordered, the property of such Obligated Group Member, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of such Obligated Group Member.

Such Obligated Group Member could file a plan for the adjustment of its debts in any such proceeding that could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan be feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly. There is also no assurance that, in the event of the bankruptcy of the Corporation or any future Obligated Group Member, certain covenants in the Bond Indenture or the Capital Obligation Documents would survive.

In addition, the bankruptcy of a health plan or physician group that is a party to a significant managed care arrangement with one or more of the Members of the CHI Credit Group, or that of any significant contract payor obligated to any one or more Members of the CHI Credit Group, could have material adverse effects on the CHI Credit Group.

Moreover, the bankruptcy of (or similar action by or affecting) a CHI Credit Group Member that is not an Obligated Group Member is not a default under the Capital Obligation Document, but the effect of such bankruptcy upon the CHI Credit Group could be material if the CHI Credit Group Member were precluded from transferring funds to the Corporation to make payments due on Obligations.

General Litigation and Insurance

Litigation. As with most multi-institutional systems, there are, at any point in time, a number of medical malpractice actions filed or pending involving Members of the CHI Credit Group. Generally, these will be paid or settled from insurance and/or self-insurance coverage, and some will not be pursued by plaintiffs. However, certain actions may seek punitive or other damages, which may not be covered by insurance. Litigation also arises from the corporate and business activities of the Members of the CHI Credit Group and certain affiliates, from their status as major employers, and as a result of medical staff peer review or the denial of medical staff privileges. A U.S. Supreme Court decision now allows physicians who are subject to adverse peer review proceedings to file federal antitrust actions against hospitals and seek treble damages. Many of these risks are covered by insurance or self-insurance, but some are not. In the unlikely event that a substantial number of uncovered claims were to be determined adversely to the Members of the CHI Credit Group who are defendants in such claims, and substantial monetary damages were to be awarded in each, there could be a material adverse effect on the CHI Credit Group's financial condition. See "ABSENCE OF MATERIAL LITIGATION" herein and see **APPENDIX A** – "INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP – PART VII – Legal Proceedings – Professional Liability and Other Insurance Coverage."

Other Class Actions. Hospitals have long been subject to a wide variety of litigation risks, including liability for care outcomes, employer liability, property and premises liability, and peer review litigation with physicians, among others. In recent years, consumer class action litigation has emerged as a potentially significant source of litigation liability for hospitals and health systems. These class action suits have most recently focused on hospital billing and collections practices and "wage and hour" issues, and they may be used for a variety of currently unanticipated causes of action. Since the subject matter of class action suits may involve uninsured risks, and since such actions often involve alleged large classes of plaintiffs, they may have material adverse consequences on hospitals and health systems in the future.

Earthquakes

Some of the facilities of the Members of the CHI Credit Group are in proximity of active earthquake faults. Although the facilities are currently covered by earthquake insurance, a significant earthquake affecting one or more of these facilities could have a material adverse effect on the CHI Credit Group and could result in material damage and temporary or permanent cessation of operations at one or more of the facilities of the Members of the CHI Credit Group.

Other Factors

Additional factors that may affect future operations, and therefore revenues, of the CHI Credit Group include the following, among others:

(i) Hospital operations are capital intensive. Regulation, technology and physician/patient expectations require constant and often significant capital investment.

(ii) Cost and availability of any insurance, such as professional liability, fire, automobile and general comprehensive liability coverage, that health care facilities of a similar size and type generally carry;

(iii) The occurrence of a pandemic or a natural or man-made disaster that could damage the CHI Credit Group's facilities, interrupt utility service to the facilities, result in an abnormally high demand for health care services or workforce loss or otherwise impair the CHI Credit Group's operations and the generation of revenues from the CHI Credit Group's facilities; and

(iv) Construction projects risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, strikes, shortages of qualified contractors or materials and adverse weather conditions that could delay occupancy of major construction projects and cost overruns due to change orders, delays in construction schedules, scarcity of building materials and other factors which could cause project costs to exceed estimates and require more funds than originally allocated or require CHI Credit Group Members to borrow additional funds to complete projects.

ABSENCE OF MATERIAL LITIGATION

To the knowledge of management of the Corporation, no controversy or litigation of any nature is currently pending or threatened against the Corporation or any Member of the CHI Credit Group restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds.

Members of the CHI Credit Group are subject to certain legal actions which, in whole or in part, are not or may not be covered by insurance or self-insurance because of the type of action or damages requested (e.g., punitive damages), because of a reservation of rights by an insurance carrier or self-insurance program. Since such actions either claim punitive damages which could become a liability of CHI Credit Group Members and/or state or threaten causes of action which may not be covered by insurance or self-insurance, insurers for CHI Credit Group Members and the self-insurance program have not provided assurance of coverage, and to the extent any cases have not commenced, counsel has not been retained to evaluate them.

In the opinion of Polsinelli Shughart PC, counsel to the CHI Credit Group, no litigation is pending or, to the knowledge of such counsel, is otherwise threatened (1) against or affecting the Corporation or any CHI Credit Group Member which, directly or indirectly challenges the validity of the Bonds, the Bond Indenture, and certain other transaction documents or the consummation of the transactions contemplated thereby and by this Offering Memorandum or which, if determined adversely, would have a material and adverse effect on such consummation or validity or (2) against or affecting the Corporation or any CHI Credit Group Member or their assets, properties or operations which if determined adversely to the Corporation or such CHI Credit Group Member would have a material and adverse effect on the CHI Credit Group's financial condition, assets or operations taken as a whole.

The above information should be read in conjunction with related general risks described in "BONDHOLDERS' RISKS – General Litigation and Insurance."

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following summary of certain United States ("U.S.") federal income tax consequences of the purchase, ownership and disposition of the Bonds is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (including changes in effective dates), which change may be retroactive, or possible differing interpretations. It deals only with Bonds held as capital assets and does not purport to deal with persons in special tax situations, such as financial institutions, insurance companies, regulated investment companies, dealers in securities or currencies, persons holding Bonds as a hedge against currency risks or as a position in a "straddle" for tax purposes, or persons whose functional currency is not the U.S. dollar. It also does not deal with Holders other than investors who purchase Bonds in the initial offering at the first price at which a substantial amount of such substantially identical Bonds are sold to the general public (except where otherwise specifically noted). Persons considering the purchase of the Bonds should consult their own tax advisors concerning the application of U.S. federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Bonds arising under the laws of any other taxing jurisdiction.

As used herein, the term "U.S. Holder" means a beneficial owner of a Bond that is for U.S. federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) the trust was in existence on August 20, 1996 and properly elected to continue to be treated as a United States person. Moreover, as used herein, the term "U.S. Holder" includes any holder of a Bond whose income or gain in respect of its investment in a Bond is effectively connected with a U.S. trade or business.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is the beneficial owner of any Bond, the treatment of a partner in a partnership will generally depend on the status of such partner and the activities of such partnership. A partnership and any partner in a partnership holding Bonds should consult its own tax advisor.

Payments of Interest

Payments of interest on a Bond generally will be taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received (in accordance with the U.S. Holder's regular method of tax accounting), provided such interest is "qualified stated interest," as defined below.

Market Discount

If a U.S. Holder purchases a Bond, other than an original issue discount Bond ("OID Bond"), for an amount that is less than its issue price (or, in the case of a subsequent purchaser, its stated redemption price at maturity) or, in the case of an OID Bond, for an amount that is less than its adjusted issue price as of the purchase date, such U.S. Holder will be treated as having purchased such Bond at a "market discount," unless the amount of such market discount is less than the specified de minimis amount.

Under the market discount rules, a U.S. Holder will be required to treat any partial principal payment (or, in the case of an OID Bond, any payment that does not constitute qualified stated interest) on, or any gain realized on the sale, exchange, retirement or other disposition of, a Bond as ordinary income to the extent of the lesser of (i) the amount of such payment or realized gain or (ii) the market discount which has not previously been included in gross income and is treated as having accrued on such Bond at the time of such payment or disposition. Market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Bonds, unless the U.S. Holder elects to accrue market discount on the basis of semiannual compounding.

A U.S. Holder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a Bond with market discount until the maturity of such Bond or certain earlier dispositions, because a current deduction is only allowed to the extent the interest expense exceeds an allocable portion of market discount. A U.S. Holder may elect to include market discount in income currently as it accrues (on either a ratable or semiannual compounding basis), in which case the rules described above regarding the treatment as ordinary income of gain upon the disposition of the Bond and upon the receipt of certain cash payments and regarding the deferral of interest deductions will not apply. Generally, such currently included market discount is treated as ordinary income for U.S. federal income tax purposes. Such an election will apply to all debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Premium

If a U.S. Holder purchases a Bond for an amount that is greater than the sum of all amounts payable on the Bond after the purchase date, other than payments of qualified stated interest, such U.S. Holder will be considered to have purchased the Bond with "amortizable bond premium" equal in amount to such excess. A U.S. Holder may elect to amortize such premium using a constant yield method over the remaining term of the Bond and may offset interest otherwise required to be included in respect of the Bond during any taxable year by the amortized amount of such excess for the taxable year. Bond premium on a Bond held by a U.S. Holder that does not make such election will decrease the amount of gain or increase the amount of loss otherwise recognized on the disposition of such Bond. However, if the Bond may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity, special rules would apply which could result in a deferral of the amortization of some bond premium until later in the term of the Bond (as discussed in more detail below). Any election to amortize bond premium applies to all taxable debt instruments held by the U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

The following rules apply to any Bond which may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity. The amount of amortizable bond premium attributable to such Bond shall be equal to the lesser of (1) the difference between (A) such U.S. Holder's tax basis in the Bond and (B) the sum of all amounts payable on the Bond after the purchase date, other than payments of qualified stated interest or (2) the difference between (X) such U.S. Holder's tax basis in the Bond and (Y) the sum of all amounts payable on the Bond after the purchase date due on or before the early call date, other than payments of qualified stated interest. If the Bonds may be redeemed on more than one date prior to maturity, the early call date and amount payable on that early call date that produces the lowest amount of amortizable bond premium, is the early call date and amount payable on the early call date that is initially used for purposes of calculating the amount pursuant to clause (2) of the previous sentence. If an early call date is not taken into account in computing premium amortization and the early call is in fact exercised, a U.S. Holder will be allowed a deduction for the excess of the U.S. Holder's tax basis in the Bond over the amount realized pursuant to the redemption. If an early call date is taken into account in computing premium amortization and the early call is not exercised, the Bond will be treated as reissued on such early call date for the call price. Following the deemed reissuance, the amount of amortizable bond premium is recalculated pursuant to the rules of this section "– Premium." The rules relating to a Bond which may be optionally redeemed are complex and prospective purchasers are urged to consult their own tax advisors regarding the application of the amortizable bond premium rules to their particular situation.

Disposition of a Bond

Except as discussed above, upon the sale, exchange or retirement of a Bond, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (other than amounts representing accrued and unpaid interest) and such U.S. Holder's adjusted tax basis in the Bond. A U.S. Holder's adjusted tax basis in a Bond generally will equal such U.S. Holder's initial investment in the Bond increased by any original issue discount included in income (and accrued market discount, if any, if the U.S. holder has included market discount in income) and decreased by the amount of payments, other than qualified stated interest payments, received and amortizable bond premium taken with respect to such Bond. Such gain or loss generally will be long-term capital gain or loss if the Bond has been held by the U.S. Holder at the time of disposition for more than one year. If the U.S. Holder is an individual, long-term capital gain will be subject to reduced rates of taxation. The deductibility of capital losses is subject to certain limitations.

Medicare Tax

For taxable years beginning after December 31, 2012, an additional 3.8% tax will be imposed on the net investment income (which includes interest, original issue discount and gains from a disposition of a Bond) of certain individuals, trust and estates. Prospective investors in the Bonds should consult their tax advisors regarding the possible applicability of this tax to an investment in the Bonds.

Non-U.S. Holders

A non-U.S. Holder will not be subject to United States federal income taxes on payments of principal, premium (if any), interest (including original issue discount, if any) on a Bond, unless such non-U.S. Holder is a bank receiving interest described in section 881(c)(3)(A) of the Code. To qualify for the exemption from taxation, the Withholding Agent, as defined below, must have received a statement from the individual or corporation that:

- is signed by the beneficial owner of the Bond under penalties of perjury,
- certifies that such owner is not a U.S. Holder, and
- provides the beneficial owner's name and address.

A "Withholding Agent" is the last United States payor (or a non-U.S. payor who is a qualified intermediary, U.S. branch of a foreign person, or withholding foreign partnership) in the chain of payment prior to payment to a non-U.S. Holder (which itself is not a Withholding Agent). Generally, this statement is made on an IRS Form W-8BEN ("W-8BEN"), which is effective for the remainder of the year of signature plus three full calendar years unless a change in circumstances makes any information on the form incorrect. Notwithstanding the preceding sentence, a W-8BEN with a U.S. taxpayer identification number will remain effective until a change in circumstances makes any information on the form incorrect, provided that the Withholding Agent reports at least annually to the beneficial owner on IRS Form 1042-S. The beneficial owner must inform the Withholding Agent within 30 days of such change and furnish a new W-8BEN. A non-U.S. Holder who is not an individual or corporation (or an entity treated as a corporation for federal income tax purposes) holding the Bonds on its own behalf may have substantially increased reporting requirements. In particular, in the case of Bonds held by a foreign partnership (or foreign trust), the partners (or beneficiaries) rather than the partnership (or trust) will be required to provide the certification discussed above, and the partnership (or trust) will be required to provide certain additional information.

A non-U.S. Holder whose income with respect to its investment in a Bond is effectively connected with the conduct of a U.S. trade or business would generally be taxed as if the holder was a U.S. person provided the holder provides to the Withholding Agent an IRS Form W-8ECI.

Certain securities clearing organizations, and other entities who are not beneficial owners, may be able to provide a signed statement to the Withholding Agent. However, in such case, the signed statement may require a copy of the beneficial owner's W-8BEN (or the substitute form).

Generally, a non-U.S. Holder will not be subject to United States federal income taxes on any amount which constitutes capital gain upon retirement or disposition of a Bond, unless such non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and such gain is derived from sources within the United States. Certain other exceptions may be applicable, and a non-U.S. Holder should consult its tax advisor in this regard.

The Bonds will not be includible in the estate of a non-U.S. Holder unless at the time of such individual's death, payments in respect of the Bonds would have been effectively connected with the conduct by such individual of a trade or business in the United States.

Backup Withholding

Backup withholding of United States federal income tax may apply to payments made in respect of the Bonds to registered owners who are not "exempt recipients" and who fail to provide certain identifying information (such as the registered owner's taxpayer identification number) in the required manner. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the Bonds to a U.S. Holder must be reported to the IRS, unless the U.S. Holder is an exempt recipient or establishes an exemption. Compliance with the identification procedures described in the preceding section would establish an exemption from backup withholding for those non-U.S. Holders who are not exempt recipients.

In addition, upon the sale of a Bond to (or through) a broker, the broker must report the sale and withhold on the entire purchase price, unless either (i) the broker determines that the seller is a corporation or other exempt recipient or (ii) the seller certifies that such seller is a non-U.S. Holder (and certain other conditions are met). Certification of the registered owner's non-U.S. status would be made normally on an IRS Form W-8BEN under penalties of perjury, although in certain cases it may be, possible to submit other documentary evidence.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's United States federal income tax provided the required information is furnished to the IRS.

Circular 230 Notice

Any discussion of U.S. federal tax issues set forth in this Offering Memorandum relating to the Bonds was written in connection with the promotion and marketing of the transactions described in this Offering Memorandum. Such discussion is not intended or written to be legal or tax advice with respect to the Bonds to any person and is not intended or written to be used, and cannot be used, by any person for the purpose of avoiding any U.S. federal tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

Effect of Defeasance

Defeasance of any of the Bonds may result in a reissuance thereof, in which event the Holder will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the Holder's adjusted tax basis in the Bonds.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on employee benefit plans subject to Title I of ERISA ("ERISA Plans"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including, but not limited to, the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to Title I of ERISA but are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" or "disqualified persons" (each a "Party in Interest")) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A Party in Interest who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The fiduciary of a Plan that proposes to purchase and hold any Bonds should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a Party in Interest, (ii) the sale or exchange of any property between a Plan and a Party in Interest and (iii) the transfer to, or use by or for the benefit of, a Party in Interest, of any Plan assets. Depending on the identity of the Plan fiduciary making the decision to acquire or hold Bonds on behalf of a Plan and other factors, U.S. Department of Labor Prohibited Transaction Class Exemption ("PTCE") 75-1 (relating to certain broker-dealer transactions), PTCE 84-14 (relating to transactions effected by independent "qualified professional asset managers"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by an insurance company general account), or PTCE 96-23 (relating to transactions directed by certain "in-house asset managers") (collectively, the "Class Exemptions") could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. In addition, Section 408(b)(7) of ERISA and Section 4975(d)(20) of the Code generally provide for a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code for certain transactions between Plans and persons who are Parties in interest solely by reason of providing services to such Plans or that are affiliated with such service providers, provided generally that such persons are not fiduciaries with respect to the "plan assets" of any Plan involved in the transaction and that certain other conditions are satisfied.

By its acceptance of a Bond, each Purchaser will be deemed to have represented and warranted that either (i) no "plan assets" of any Plan have been used to purchase such Bond, or (ii) the Underwriter is not a Party in Interest with respect to the "plan assets" of any Plan used to purchase such Bond, or (iii) the purchase and holding of such Bonds is exempt from the prohibited transaction restrictions of ERISA and Section 4975 of the Code pursuant to a statutory exemption or an administrative class exemption.

Each Plan fiduciary (and each fiduciary for a governmental or church plan subject to the rules similar to those imposed on Plans under ERISA) should consult with its legal advisor concerning an investment in any of the Bonds.

APPROVAL OF LEGALITY

Certain legal matters will be passed upon for the Corporation and the other CHI Credit Group Members by their special counsel, Polsinelli Shughart PC, Chicago, Illinois, and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP.

INDEPENDENT AUDITORS

The consolidated financial statements of Catholic Health Initiatives as of June 30, 2012 and 2011 and for the years then ended, included in **APPENDIX B** to this Offering Memorandum, have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing in **APPENDIX B**, which is based in part on the report of KPMG LLP, independent auditors, on the combined financial statements of Alegent Health – Bergan Mercy Health System and Affiliates as of June 30, 2012 and 2011, and for the years then ended. The consolidated financial statements of Bethesda Hospital, Inc. and Subsidiaries as of June 30, 2012 and 2011 and for the years then ended, included in **APPENDIX C** to this Offering Memorandum, have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing in **APPENDIX C**. The combined financial statements of Alegent Health and Related Entities as of June 30, 2012 and 2011, and for the years then ended, included in **APPENDIX D** to this Offering Memorandum, have been audited by KPMG LLP, independent auditors, as stated in their report appearing in **APPENDIX D**, which is based in part on the report of Ernst & Young LLP, independent auditors, on the financial statements of CHI Operating Investment Program Limited Partnership as of June 30, 2012, and the year then ended.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("S&P") and FitchRatings ("Fitch") have assigned their municipal bond ratings of Aa3 (stable outlook), AA- (stable outlook) and AA- (stable outlook), respectively, to the Bonds. Prior to the assignment of the ratings on the Bonds, Moody's, S&P and Fitch had assigned their municipal bond ratings of Aa2 (stable outlook), AA (negative outlook) and AA (stable outlook), respectively, to the long-term debt of the Corporation. Any explanation of the significance of such ratings may only be obtained from such rating agencies. The Corporation and the other Members of the CHI Credit Group have furnished to such rating agencies certain information and material concerning the Bonds and themselves. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the ratings mentioned above will remain in effect for any given period of time or that they might not be lowered, suspended or withdrawn entirely by such rating agency, if in its judgment circumstances so warrant. Any such downward change in, suspension of or withdrawal of any ratings might have an adverse effect on the market price or marketability of the Bonds.

UNDERWRITING

J.P. Morgan Securities LLC, on behalf of itself, and Morgan Stanley & Co. LLC (collectively, the "Underwriters"), has agreed to purchase the Bonds at an aggregate purchase price of $1,486,487,945.03 (composed of the aggregate par amount of $1,500,000,000.00 less an underwriting discount of $10,512,054.97, less the original issue discount of $3,000,000.00). The Bond Purchase Contract provides that the Underwriters will purchase all of the Bonds, if any are purchased, and contains the agreements of the Corporation to indemnify the Underwriters against certain liabilities, including liabilities under the federal securities laws.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement (a "Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., have entered into a retail brokerage joint venture. As part of the joint venture each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of the Bonds.

FINANCIAL ADVISOR

Ponder & Co. has served as financial advisor to the Corporation for purposes of assisting with the development and implementation of a bond structure in connection with the Bonds. Ponder & Co. is not obligated to undertake, and has not undertaken, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Offering Memorandum. Ponder & Co. is an independent advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities.

MISCELLANEOUS

The foregoing and subsequent summaries or description of provisions of the Bonds, the Bond Indenture, the Capital Obligation Document and the Series 2012 Obligation and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Reference is made to said documents for full and complete statements of their provisions. The appendices attached hereto are a part of this Offering Memorandum. Copies, in reasonable quantity, of the Bond Indenture, the Capital Obligation Document and the Series 2012 Obligation may be obtained during the offering period upon request directed to J.P. Morgan Securities LLC, 560 Mission Street, 10th Floor, San Francisco, California 94105 or Morgan Stanley & Co. LLC, 1585 Broadway, 11th Floor, New York, New York 10036 and thereafter from the Bond Trustee.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

EXECUTION

The use of this Offering Memorandum has been approved by the Corporation in connection with the issuance of the Bonds and by the Corporation. This Offering Memorandum is not to be considered as a contract or agreement between or among the Corporation or any other CHI Credit Group Member and the purchasers or holders of any of the Bonds.

CATHOLIC HEALTH INITIATIVES

By: /s/ Linda L. MacDonald
Vice President, Treasury Services

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

INFORMATION CONCERNING CATHOLIC HEALTH INITIATIVES AND THE CHI CREDIT GROUP

[THIS PAGE INTENTIONALLY LEFT BLANK]

Appendix A

Information Concerning Catholic Health Initiatives and The CHI Credit Group

The information contained herein as Appendix A to this Offering Memorandum has been obtained from Catholic Health Initiatives and, as to Bethesda Hospital, Inc., from Bethesda Hospital, Inc. and, as to Alegent Creighton Health and Alegent Creighton Immanuel Medical Center, from Alegent Creighton Health.

Table of Contents

Certain of the discussions included in this Appendix may include forward-looking statements. Such statements are generally identifiable by the terminology used such as "believes," "anticipates," "intends," "scheduled," "plans," "expects," "estimates," "budget" or other similar words. Such forward-looking statements are primarily included in **PART IV.** *These statements reflect the current views of CHI management with respect to future events based on certain assumptions, and are subject to risks and uncertainties. The Corporation undertakes no obligation to publicly update or review any forward-looking statement as a result of new information or future events.*

Introduction

This Appendix A to the Offering Memorandum contains information concerning Catholic Health Initiatives, a Colorado nonprofit corporation (the "*Corporation*"), and the members of a CHI Credit Group described in more detail below. The Corporation is the parent corporation of a group of nonprofit and for profit corporations and other organizations that own and operate health care facilities and provide health care-related services in 19 states. The Corporation provides leadership and management functions for its affiliates and subsidiaries and has no material revenue producing assets of its own, other than cash and investments.

References to "*CHI*" in this Appendix A are to the Corporation and all of the affiliates and subsidiaries consolidated with it pursuant to generally accepted accounting principles ("*GAAP*"). References to the Corporation are references only to the parent corporation, and should not be read to include any of the Corporation's affiliates and subsidiaries.

Part I
CHI Credit Group Members

The Corporation has formed a combined financing group (the "*CHI Credit Group*") that consists of an "*Obligated Group*," "*Participants*" and "*Designated Affiliates*" under a Capital Obligation Document. Only the Obligated Group is liable for payment to holders of Obligations issued under the Capital Obligation Document, including the Obligations that evidence the Corporation's repayment obligations with respect to the bonds described in the forepart of this Offering Memorandum under the caption "*PLAN OF FINANCE*" and the other obligations described under Part IV, Section F and Section I. Currently, the Corporation is the sole member of the Obligated Group and has no current plans to change the composition of the Obligated Group.

All entities that are consolidated with the Corporation under GAAP are "*Participants*" under the Capital Obligation Document. Participants are not parties to the Capital Obligation Document and holders of Obligations issued under the Capital Obligation Document have no recourse to the Participants or their property. "*Designated Affiliates*" are defined in the Capital Obligation Document as entities that have agreed (pursuant to agreements with the Corporation described in greater detail under Part V, Section B) to comply with the provisions of the Capital Obligation Document, subject to any limitations that may be set forth in those agreements, and are enforceable solely by the Corporation. Holders of the Obligations have no recourse to the Designated Affiliates or their property. Currently, Bethesda Hospital, Inc. ("*Bethesda*") and Alegent Creighton Health (formerly known as Alegent Health) and Alegent Creighton Immanuel Medical Center (formerly known as Alegent Health – Immanuel Medical Center, and, together with Alegent Creighton Health, referred to jointly herein as "*Alegent*" and separately as "*Alegent Creighton Health*" and "*Immanuel Medical Center*") are the Designated

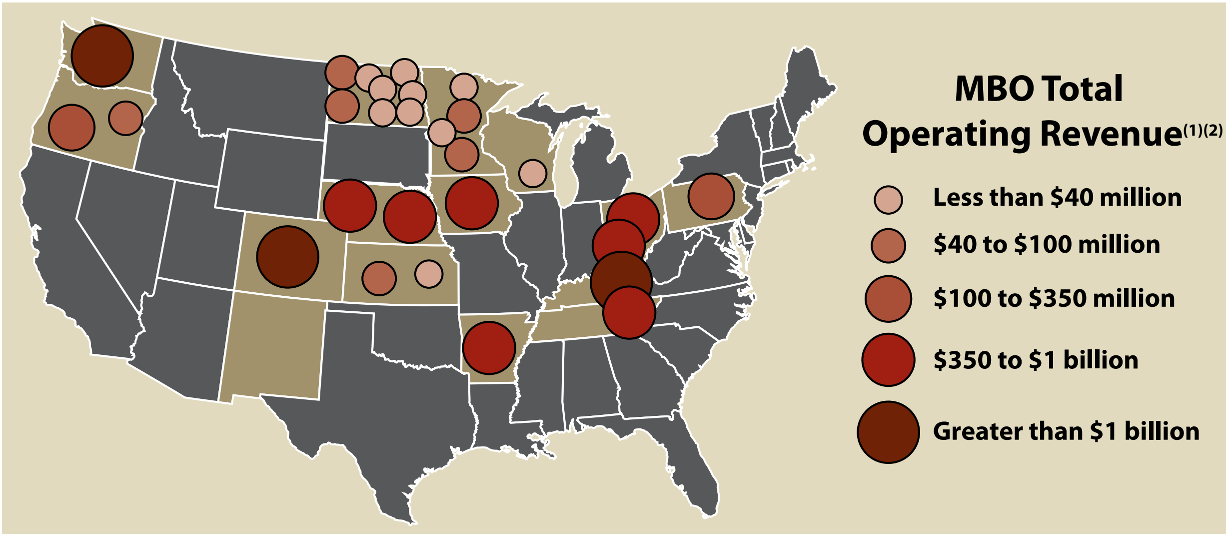
Affiliates. As discussed in more detail in Part IV, Section B below, the Corporation and Immanuel Health System ("*Immanuel*") are working to complete a transaction that will terminate their existing agreement regarding their joint operation of Alegent and certain Participants. If the transaction is completed as planned, on November 1, 2012, the Corporation will become the sole member of Alegent Creighton Health, and Alegent Creighton Health and its affiliates, including Immanuel Medical Center, will become Participants, and Immanuel will no longer have any interest in those corporations or any other entities that are presently jointly operated by the Corporation and Immanuel. With the exception of certain Participants, the members of the CHI Credit Group are exempt from federal income taxation under Section 501(a) of the Internal Revenue Code and are organizations described in Section 501(c)(3) of the Internal Revenue Code.

Part II
Catholic Health Initiatives

CHI is a faith-based system operating in 19 states and includes 74 acute care hospitals (21 of which are critical access hospitals); 40 long-term care, assisted living and residential facilities; two community health-services organizations; two accredited nursing colleges; and home health agencies. For the fiscal year ended June 30, 2012, CHI provided nearly $663 million in charity care and community benefit, including services for the poor, free clinics, education and research, but excluding unpaid costs of Medicare. Community benefit is measured on the basis of total cost, net of any offsetting revenues, donations or other funds used to defray cost. With approximately $15 billion in assets as of June 30, 2012 and operating revenues of approximately $9.8 billion for the fiscal year ended June 30, 2012, CHI is the nation's second-largest Catholic health care system. For the fiscal year ended June 30, 2012, CHI reported acute inpatient days of 1.7 million; acute admissions of 372,000; physician visits of 6.2 million; and home-based visits of 788,000.

CHI's investments of capital and dedication of resources to clinical quality and evidence-based practice initiatives, research and development programs and facility replacement and improvement projects are made to continue its mission and vision. The success of these programs and initiatives is evidenced by CHI's inclusion in the top quintile of best-performing systems in Thomson Reuters' "10 Top Health Systems" in 2011. In making its selections, researchers at Thomson Reuters looked at 285 health systems, analyzing eight metrics that gauge clinical quality and efficiency: mortality, medical complications, patient safety, average length of stay, 30-day mortality rate, 30-day readmission rate, adherence to clinical standards of care (evidence-based core measures published by the Centers for Medicare and Medicaid Services), and HCAHPS patient survey score (part of a national initiative sponsored by the United States Department of Health and Human Services to measure the quality of care in hospitals). (Full results are available in the Thomson Reuters report entitled "Top 10 Health Systems: Study Overview and Research Findings," 3rd Edition, May 31, 2011.)

CHI is currently comprised of 31 market-based organizations or "*MBOs*," including five that are operated under the terms of joint operating agreements ("*JOAs*"), and multiple joint ventures. The geographic diversity and total operating revenues by state for the fiscal year ended June 30, 2012 are depicted in the following map.



(1) The total operating revenues for three MBOs not shown above (Denville, New Jersey; Towson, Maryland; and Pierre, South Dakota) have been reported as discontinued operations.
(2) Includes total operating revenues for Participants that are operated under Joint Operating Agreements.

For the fiscal year ended June 30, 2012, the thirteen MBOs described below represented 93% of total operating revenues for CHI. These same thirteen MBOs represented 94% of total operating revenues for CHI for the fiscal year ended June 30, 2011.

Percentage of Total Operating Revenues for CHI Attributable to Certain MBOs

MBO	State	Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2011
Centura Health	Colorado	16%	17%
KentuckyOne Health[(1)]	Kentucky	14	10
Franciscan Health System	Washington	14	15
Des Moines	Iowa	10	11
CHI Nebraska	Nebraska	8	8
Chattanooga	Tennessee	6	7
Cincinnati	Ohio	5	6
Omaha[(2)]	Nebraska	5	5
Little Rock	Arkansas	5	4
Dayton	Ohio	5	5
Reading	Pennsylvania	2	3
Roseburg	Oregon	2	2
Kansas (Consolidated)	Kansas	1	1

(1) As described below, KentuckyOne Health was created effective January 1, 2012. Total operating revenues for the fiscal year ended June 30, 2012 includes total operating revenues of approximately $441.8 million for only Saint Joseph Health System, Lexington, Kentucky, for period from July 1, 2011 through December 31, 2011, and $968.7 million for the newly created KentuckyOne Health for period January 1, 2012 through June 30, 2012. Total operating revenues for the fiscal year ended June 30, 2011 includes total operating revenues of approximately $861.3 million for only Saint Joseph Health System, Lexington, Kentucky.
(2) Includes only those entities that are Participants. Does not include total operating revenues of the Designated Affiliates in this market.

The MBOs are direct providers of care within a defined market and may be integrated networks, local health systems and/or stand-alone hospitals or other health facilities and service providers. The Corporation and certain members of the CHI Credit Group have also entered into JOAs with unaffiliated health systems or hospital corporations to assist CHI in developing regionally-based health care delivery systems or networks in certain markets. The parties to the JOAs create joint operating companies that operate the health care facilities within the relevant system or network, including those owned by members of the CHI Credit Group (collectively, "*JOCs*"). The members of the JOCs retain their individual corporate identities and title to their own property. The Corporation's interests in the JOCs at June 30, 2012 included a 70% interest in Centura Health (Colorado) and 50% interests in Alegent (Nebraska and Iowa), TriHealth, Inc. (Ohio) and Mercy (Iowa). As discussed in more detail in Part IV, Section B below, the Corporation and Immanuel are negotiating to terminate their existing JOA on November 1, 2012, assuming the satisfaction of certain conditions. If the transaction is completed as planned, the Corporation will become the sole member of Alegent Creighton Health.

Effective January 1, 2012, Jewish Hospital and St. Mary's HealthCare, based in Louisville, Kentucky ("*JHSMH*"), Saint Joseph Health System, based in Lexington, Kentucky ("*Saint Joseph – Kentucky*") and certain of their related entities combined to form KentuckyOne Health ("*KentuckyOne Health*"), the largest health system in the Commonwealth of Kentucky based on total revenues. The Corporation and Jewish Hospital HealthCare Services ("*JHHS*" and, together with the Corporation, the "*Sponsors*") are the corporate members of the Kentucky nonprofit corporation that controls JHSMH and Saint Joseph - Kentucky. CHI has an 83% interest in KentuckyOne Health. The corporations that comprise KentuckyOne Health (including, without limitation, JHSMH) are Participants under the Capital Obligation Document. JHHS is not a Participant under the Capital Obligation Document.

A. ORIGINS AND VISION

CHI was formed through the consolidation of four national Catholic health care systems. The goal of the consolidation was to develop and nurture a national health ministry, sponsored and governed by a religious-lay partnership, which would transform health care delivery and create vibrant new ministries across the nation to build healthy communities. The new organization began operations on July 1, 1996. Along with its focus on helping to build healthier communities, CHI is committed to reaching new milestones of clinical quality and to pursuing an agenda of social justice.

CHI's Mission, Vision and Values

Mission	Vision	Core Values
CHI's mission is to nurture the healing ministry of the Catholic Church by bringing it new life, energy and viability in the 21st century. Fidelity to the Gospel urges CHI to emphasize human dignity and social justice as it moves toward the creation of healthier communities.	CHI's vision is to live up to its name as "One CHI": **Catholic:** Living our mission and core values. **Health:** Improving the health of people and communities we serve. **Initiatives:** Pioneering models and systems of care to enhance care delivery.	CHI's core values define the organization and serve as its guiding principles: Reverence, Integrity, Compassion and Excellence.

B. BUSINESS OF CATHOLIC HEALTH INITIATIVES

I. FACILITIES

CHI currently consists of 74 acute care hospitals and 40 long-term care, assisted living and residential facilities. CHI's acute care facilities and certain skilled-nursing/assisted living facilities are listed in Exhibit A, along with their location, beds or unit count and related MBOs. CHI also operates ambulatory surgery centers, outpatient centers and facilities that provide health care and health care-related services, as well as independent living facilities, which are not included in the list in Exhibit A. The Designated Affiliates also operate acute care hospitals and other facilities in Nebraska, Iowa and Ohio. The Designated Affiliates' acute care facilities are listed in Exhibit A.

II. PROFESSIONAL STAFF

At June 30, 2012, CHI employed approximately 1,400 physicians in 60 specialties. More than 50% of these physicians were specialists. Physician growth and alignment are integral parts of CHI's growth strategy, which is discussed in more detail in Part IV, Section A.

III. EMPLOYEES

At June 30, 2012, CHI employed approximately 78,000 employees. CHI management believes that the salary levels and benefits packages for CHI employees are competitive. Salary and benefit packages are reviewed annually by the local and/or system board committees. Less than 10% of CHI's employees are represented by collective bargaining units. Those collective bargaining arrangements primarily relate to CHI's MBOs operating in the pacific Northwest and the upper Midwest.

IV. ACCREDITATIONS AND LICENSES

CHI's hospital facilities, skilled nursing facilities and long term care facilities have all necessary licenses to operate their facilities and necessary certifications and licenses for Medicare and Medicaid reimbursement.

V. CONFLICT OF INTEREST

The Corporation maintains policies that require internal reporting of outside financial and fiduciary activities to protect its interests in circumstances that may result in a conflict between the personal interests of its employees and trustees and those of CHI. Those policies put in place a general obligation for key employees and trustees to report potential conflicts of interest to the Board Chair (in the case of trustees) or CHI Corporate Responsibility Officer and CHI Senior Vice President and Chief Human Resources Officer (in the case of employees), in addition to requiring annual disclosures.

Part III

Financial Ratios and Summary of Selected Financial Data

The Corporation's reporting obligation under the Capital Obligation Document is limited to the "*CHI Reporting Group*," which must include the Corporation, the Participants and any Designated Affiliates whose total revenues exceed 5% of the total revenues of the CHI Credit Group. The Corporation may also choose to include any other Designated Affiliate in the financial statements of the CHI Reporting Group. Currently, the CHI Reporting Group and the CHI Credit Group consist of the same entities.

The selected financial data that follows has been prepared by CHI management based on CHI's audited financial statements for the fiscal years ended June 30, 2012, 2011 and 2010 and the audited financial statements of the Designated Affiliates for the fiscal years ended June 30, 2012, 2011 and 2010. The CHI Reporting Group financial information should be read in conjunction with the audited financial statements, related notes, and other financial information of CHI, Bethesda and Alegent included in Appendices B, C and D, respectively.

The financial statements for Bethesda include financial results from certain of its affiliates and subsidiaries that are not Designated Affiliates, which represented less than 1% of the total combined revenues, excess of revenues over expenses and net assets of the CHI Reporting Group for the fiscal years ended June 30, 2012, 2011 and 2010.

CHI's interests in four of its JOCs are included in investments in unconsolidated organizations. The results of operations of the services and/or facilities owned by CHI and operated pursuant to JOAs are included in the consolidated financial statements of CHI. Income-share arrangements with the JOAs are included in the respective operating or nonoperating revenue sections of the statements of operations consistent with CHI's revenue recognition policies. The results of operations of the Designated Affiliates are included in the financial information of the CHI Reporting Group. Certain joint venture agreements are not consolidated subsidiaries of the Corporation or the members of the CHI Credit Group. The results of those operations are reflected in the consolidated financial statements of CHI under the line item "Changes in equity of unconsolidated organizations." Additional detail regarding CHI's JOAs and investments in unconsolidated organizations can be found in note 3 to the audited financial statements in Appendix B.

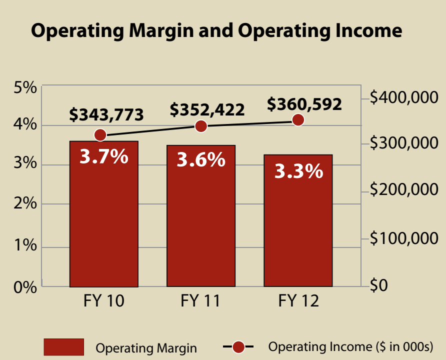
A. FINANCIAL RATIOS

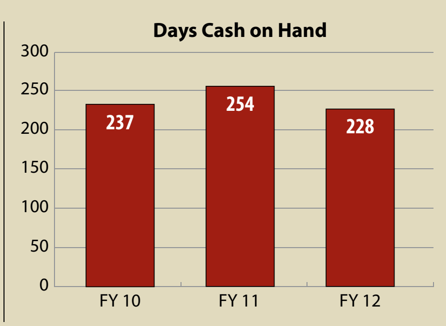
The financial ratios presented below reflect the unaudited combined results of the CHI Reporting Group for the fiscal years ended June 30, 2010, 2011 and 2012.

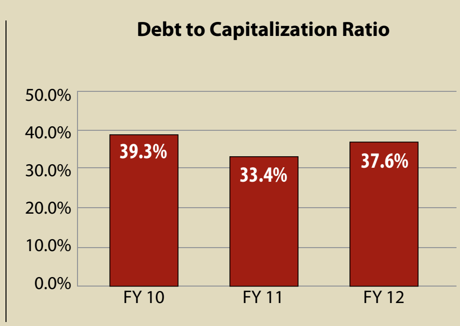
Unaudited[1]	Fiscal Year Ended June 30, 2010	2011	2012
Operating Performance:			
Operating Margin Before Restructuring, Impairment and Other Losses[2]	4.3%	3.8%	3.7%
Operating Margin[3]	3.7%	3.6%	3.3%
Excess Margin[4]	7.8%	11.7%	1.4%
Operating EBIDA Margin[5]	9.9%	9.9%	9.4%

Unaudited[1]	As of June 30, 2010	2011	2012
Liquidity:			
Days Cash on Hand[6]	237	254	228
Financial Position/Leverage Ratios:			
Debt to Capitalization[7]	39.3%	33.4%	37.6%
Debt to Cash Flow[8]	4.8	4.8	5.2
Historical Long-Term Debt Service Coverage Ratio[9]	7.4x	7.1x	5.8x

(1) Derived from the unaudited CHI Reporting Group financial information. Does not reflect any reclassification of the provision for bad debts associated with patient service revenues in accordance with ASU 2011-7. As of July 1, 2012, CHI has adopted ASU 2011-7, and as a result, bad debts associated with patient service revenues will be reclassified from an operating expense to a deduction from patient service revenues.
(2) Income from operations before restructuring, impairment and other losses/Total operating revenues.
(3) Total income from operations/Total operating revenues.
(4) Excess of revenues over expenses/(Total operating revenues + total non-operating (losses) gains).
(5) (Total income from operations + Depreciation and amortization + Interest)/Total operating revenues.
(6) (Cash and equivalents + Investments and assets limited as to use: Internally designated)/((Total operating expenses before restructuring, impairment and other losses – Depreciation and amortization)/actual number of days in a period).
(7) (Commercial paper and current portion of debt + Variable-rate debt with self liquidity + Long-term debt)/(Commercial paper and current portion of debt + Variable-rate debt with self-liquidity + Long-term debt + Unrestricted net assets).
(8) (Commercial paper and current portion of debt + Variable-rate debt with self liquidity + Long-term debt)/(Total income from operations + Depreciation and amortization + Non-cash restructuring, impairment and other losses – Unrealized gains (losses) included in Total income from operations).
(9) See Part IV, Section L.







B. SELECTED FINANCIAL DATA

The following table presents unaudited condensed combined statements of operations of the CHI Reporting Group for the fiscal years ended June 30, 2012, 2011 and 2010.

Unaudited (000s)	Statements of Operations[(1)(2)] Fiscal Year Ended June 30, 2012	2011	2010
Revenues:			
Net patient services	$10,269,503	$9,303,526	$8,789,126
Investment income used for operations	37,169	30,475	33,045
Other	597,576	511,482	484,446
Total operating revenues	10,904,248	9,845,483	9,306,617
Expenses:			
Salaries, wages and employee benefits	4,971,398	4,472,554	4,210,537
Supplies	1,723,139	1,594,525	1,565,098
Bad debts	788,288	760,343	708,980
Depreciation and amortization	538,121	502,665	483,120
Interest	130,038	116,696	91,625
Other	2,344,937	2,024,918	1,842,587
Total operating expenses before restructuring, impairment and other losses	10,495,921	9,471,701	8,901,947
Income from operations before restructuring, impairment and other losses	408,327	373,782	404,670
Restructuring, impairment and other losses	47,735	21,360	60,897
Income from operations	360,592	352,422	343,773
Nonoperating (losses) gains:			
Investment income, net	19,654	908,080	483,450
(Losses) gains on defeasance of bonds and escrow restructuring	(70,555)	—	2,896
Realized and unrealized losses on interest rate swaps	(153,411)	(4,870)	(78,467)
Other nonoperating (losses) gains	(11,063)	8,271	11,355
Total nonoperating (losses) gains	(215,375)	911,481	419,234
Excess of revenues over expenses	145,217	1,263,903	763,007
Excess of revenues over expenses attributable to noncontrolling interests	537	3,298	966
Excess of revenues over expenses attributable to CHI Reporting Group	$144,680	$1,260,605	$762,041

(1) Does not reflect any reclassification of the provision for bad debts associated with net patient services revenues in accordance with ASU 2011-7. As of July 1, 2012, CHI has adopted ASU 2011-7, and as a result, bad debts associated with patient services revenues will be reclassified from an operating expense to a deduction from patient services revenues.

(2) During fiscal year 2012, CHI management determined that investment earnings related to investments held at FIIL in excess of amounts required to support the capital needs of FIIL should be classified as nonoperating. Accordingly, such amounts have been reclassified for all periods in the financial results included in this Appendix A.

The following table provides unaudited condensed combined balance sheets for the CHI Reporting Group as of June 30, 2012, 2011 and 2010.

Unaudited (000s)	2012	Balance Sheets June 30, 2011	2010
Assets			
Current assets:			
Cash and equivalents	$488,794	$547,840	$544,832
Patient accounts receivable, net	1,448,978	1,175,393	1,165,977
Assets held for sale	474,990	497,545	481,839
Other current assets	431,975	391,110	343,345
Total current assets	2,844,737	2,611,888	2,535,993
Investments and assets limited as to use:			
Internally designated	5,716,643	5,685,772	4,910,719
Held by trustees, held for insurance purposes and restricted by donors	950,436	923,111	885,574
Total investments and assets limited as to use	6,667,079	6,608,883	5,796,293
Property and equipment, net	6,038,585	5,227,004	5,042,252
Other assets	712,946	595,306	492,898
Total assets	$16,263,347	$15,043,081	$13,867,436
Liabilities and net assets			
Current liabilities:			
Commercial paper and current portion of debt	$644,649	$839,959	$736,506
Variable-rate debt with self-liquidity	321,455	163,400	283,660
Liabilities held for sale	103,633	104,611	79,734
Other current liabilities	1,478,821	1,270,339	1,288,261
Total current liabilities	2,548,558	2,378,309	2,388,161
Long-term debt	3,789,573	3,133,378	3,202,498
Pension liability	998,627	381,986	851,742
Other liabilities	815,489	702,541	709,084
Total liabilities	8,152,247	6,596,214	7,151,485
Net assets			
Net assets attributable to CHI Reporting Group	7,709,422	8,239,592	6,526,325
Net assets attributable to noncontrolling interests	180,863	8,967	8,204
Unrestricted	7,890,285	8,248,559	6,534,529
Temporarily restricted	150,735	133,835	126,222
Permanently restricted	70,080	64,473	55,200
Total net assets	8,111,100	8,446,867	6,715,951
Total liabilities and net assets	$16,263,347	$15,043,081	$13,867,436

Part IV
Management's Discussion and Analysis

This discussion and analysis includes information regarding both CHI and the CHI Reporting Group for the fiscal years ended June 30, 2012, 2011 and 2010. To better inform the reader, financial, operational or other references are provided for CHI alone when information is not available for the CHI Reporting Group as a whole.

A. STRATEGIC INITIATIVES

I. STRATEGIC INITIATIVES FOR THE NEXT ERA OF HEALTHY COMMUNITIES

Health care reform and industry trends are driving fundamental change in care delivery and payment models. Consolidation of providers is occurring at a rapid pace, driving toward greater market density and scale. The Corporation believes industry payment models will change from the traditional fee for service model to one where payments are aligned with the value of healthcare services provided. In response to these trends, the Corporation is implementing system-wide initiatives on increasing operational efficiencies and effectiveness (described below under the subheading *Clinical and Operational Excellence*), creating integrated systems of care delivery (described below under the subheading *Integrated Care Delivery*) and developing the capabilities and information needed to manage the health of populations (described below under the subheading *Payment for Value*). These key focus areas represent a continued shift in the operations of CHI from a system of localized health care providers to a nationalized provider of continuum health care services throughout its market areas.

II. CLINICAL AND OPERATIONAL EXCELLENCE

CHI's "*Clinical and Operational Excellence*" initiatives have both clinical and non-clinical components. The clinical component includes implementation of clinical standards to be applied throughout CHI to reduce variability and increase quality of care. Lean efforts focus on systematic and transformative process and productivity improvement in clinical operations (for example, emergency department throughput and inpatient length of stay). In addition, CHI is currently developing national clinical programs in oncology, cardiovascular and hospitalist medicine to improve decision making and set care protocols, supply standards and utilization guidelines. The next phase of clinical program development will target orthopedics, neurology/spine and general surgery.

The non-clinical component of the Clinical and Operational Excellence program includes initiatives directed at enhancing efficiency and effectiveness in core support functions. Initiatives in finance transformation; real estate, construction and facilities; supply chain; human resources; information technology; and revenue cycle are in various stages of implementation. The initiatives are expected to result in cost reductions of more than $400 million per year, while offering significant improvements in service capacity, once fully implemented at the end of fiscal 2015. There can be no assurances that the initiatives will be fully implemented or result in the expected cost savings.

The Corporation will consider options to acquire or enter into partnerships with companies that provide specialized services or build the needed capabilities, as appropriate. As an example, the Corporation entered into a partnership with Tenet to acquire minority ownership in Conifer Health Solutions, which will provide CHI's revenue cycle services. Conifer brings 30 years of expertise and investment in revenue cycle systems and technology, allowing CHI to concentrate on its core competency – the provision of quality health care services. In addition, the Corporation recently entered into an agreement to outsource the technical services components of IT, including help desk, client computing, data centers and network functions, to Wipro, a global services and technology expert, and also plans to invest in biotechnology, information technology, revenue cycle and clinical engineering, and in companies that support management of population health through a newly created venture capital group.

III. INTEGRATED CARE DELIVERY

By the end of fiscal year 2013, the Corporation intends that every CHI market will create or be part of a clinically integrated network, through which the market will coordinate patient care, services, quality and payment across the full spectrum of owned and affiliated providers including hospitals, employed and independent physicians. The goal is to develop a system through which delivery of efficient, effective care is coordinated for individuals who have had a condition or illness identified. The focus ranges from active monitoring and prevention of disease progression to intensive care coordination and well-patient management.

CHI management expects this structure to enable it to coordinate care across the health care continuum, providing the platform necessary to provide population health services and increasing the quality of care through care management, health information exchange, information technology infrastructure, and disease registries.

IV. PAYMENT FOR VALUE

CHI's initiatives focusing on value-based payments are designed to provide CHI with the expertise and infrastructure necessary to effectively market and provide population health management services. CHI is capitalizing on its size and market presence to undertake pilot projects, and has begun to implement population health management of its large employee base and in its Des Moines and Nebraska MBOs. CHI management expects its population management services to deliver value and reduce utilization and health care costs within the related population.

CHI is enhancing its managed care contracting capabilities to ensure that it captures and retains competitive reimbursement in both fee-for-service and value/risk based contracts. In addition, the Corporation is creating a subsidiary organization to focus on four areas:

- ***Contracting Excellence:*** Expand revenue, income opportunities, and yield precision through sophisticated managed care resources, tools, and health risk management capabilities;
- ***Network Management:*** Develop, maintain, and support local and regional networks focused on defined customer segments;
- ***Payer and Insurance Plans & Capabilities:*** Distribute and operate market-facing healthcare programs through capabilities and services typical of the health plan/TPA domain, including licensed plans; and
- ***Population Health Services and Operations:*** Engage CHI's client, patient, and consumer markets through health management programs and differentiated customer relationship management solutions.

CHI also recognizes that physician alignment is integral to the provision of health management services, and is focusing on increasing physician alignment by leveraging the size of its operations and the resources it provides to attract physicians to the system, including the ability to leverage size to achieve improved purchasing power and provide technology infrastructure. This focus on alignment also includes increasing the number of employed physicians, which is expected to result in increased subsidies for physician practices consistent with historical experience.

The Corporation has established a practice management group that provides infrastructure to further its physician alignment capabilities. The practice management group is responsible and accountable for defining standards and monitoring implementation of those standards across practices at all MBOs with a major area of focus on physician contracting and compensation, governance, and clinical integration. It is responsible for developing monitoring tools and benchmarks for operational improvement, leveraging size to achieve improved purchasing power and creating a center of best practices for all operational and clinical functions. CHI has identified a national physician leadership infrastructure to lead the integration and development of regional "best practice" physician enterprises. National leaders for physician compensation, contracting, recruitment, quality, care management and revenue cycle are in place.

The Corporation also has a full time national management staff that is accountable for the optimization of the financial and clinical performance of the employed physician and midlevel providers.

V. INFORMATION TECHNOLOGY

OneCare. CHI recognizes that information technology is required to better position CHI for the future and integral to its Clinical and Operational Excellence and Population Health Management initiatives. CHI has dedicated significant resources to information technology, termed its "*OneCare*" program. The OneCare program is designed to improve patient safety and clinical outcomes; enhance patient experiences; provide clinicians and staff with necessary tools and information; and eliminate duplication and waste. CHI presently estimates that its investment in the OneCare program through 2015 will be approximately $2.2 billion, which is expected to be primarily financed by income from operations and/or proceeds from the taxable bonds currently being marketed (*"Taxable 2012 Bonds"*). CHI's investment in OneCare will create a universal, shared, electronic health record for each CHI patient. CHI has already taken steps to implement OneCare, including implementing electronic prescribing technology in all physician practices; ambulatory electronic health record in over sixty-five clinics in Des Moines, Iowa (which is also well underway in the Nebraska and Kentucky markets); and physician practice management systems in Kentucky, Minnesota, Tennessee, Kansas and Nebraska.

CHI is also implementing an initiative to standardize and centralize certain business functions in human resources, finance, payroll and supply procurement system-wide, termed "*CHI Connect*." Implementation of CHI Connect is ongoing and is being introduced in groups of MBOs sequentially. Substantially all of CHI's entities will be on CHI Connect by the end of calendar year 2014, with the exception of entities operated under JOA agreements and Consolidated Health Services. However, as CHI continues to grow, CHI Connect (hereinafter described) will continue to be implemented at new facilities.

Telehealth. CHI is implementing a national telehealth organization to support its vision of increasing access to health care and improving population health. Through its Virtual Health Services ("*VHS*") organization, CHI will provide a comprehensive suite of telehealth services to its markets and external customers, strengthening existing programs and supporting expansion of services in order to leverage shared services, provide scale in purchasing technologies, implement consistent standards and processes across the system and ensure effective knowledge sharing and innovation.

VI. RESEARCH

CHI has established the CHI Institute for Research and Innovation ("*CIRI*") in furtherance of its commitment to research and innovation. CIRI is a CHI affiliate, the purpose of which is to support, facilitate and be a catalyst for research and innovation. CIRI's activities have been focused primarily in the areas of clinical trials, advancing personalized medicine and identifying and piloting new health care delivery models.

B. POTENTIAL STRATEGIC ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

CHI actively engages in ongoing monitoring and evaluation of potential facility expansion, mergers, acquisitions, divestitures and affiliation opportunities consistent with its strategic goals. As described in Part J, approximately 24% of CHI's capital budget for fiscal year 2013 is allocated to strategic growth and joint operating agreements. CHI also expects that a portion of the proceeds of the Taxable 2012 Bonds will be used to finance strategic growth initiatives.

CHI's strategic capabilities and growth initiatives are focused, in part, on creating, maintaining and/or strengthening its clinically integrated networks in key existing markets, including the transactions described below. If consummated, these transactions, as well others that CHI may consider from time to time, will result in changes in the composition of the CHI Credit Group.

I. ALEGENT HEALTH TRANSACTIONS

Alegent Sponsorship Transaction (Nebraska and Iowa). The Corporation and Immanuel are negotiating a termination of Immanuel's contractual rights and responsibilities under the JOA with respect to Alegent and its affiliates in Nebraska and Iowa, subject to certain closing conditions. If the transaction is completed as planned, the Corporation will be the sole member of Alegent Creighton Health, and the results of operations of Alegent Creighton Health and its subsidiaries (including Immanuel Medical Center) will be included in the consolidated financial statements of the Corporation under GAAP. As described in Part I, Alegent is presently a Designated Affiliate, and its results of operations are presently included in the financial information of the CHI Reporting Group. The transaction is subject to approval by Immanuel's Board of Directors. The transaction is tentatively expected to become effective as of November 1, 2012.

In connection with the termination of Immanuel's contractual rights and responsibilities under the JOA, the Corporation would make a payment to Immanuel, which is presently estimated to be approximately $500-$550 million. The Corporation anticipates that a portion of the proceeds of the Taxable 2012 Bonds will be used to finance this payment. The Corporation anticipates that, if the transaction is completed as presently planned, then the existing Alegent Financing Agreement described in Part V, Section B below will be modified or terminated by the end of the fiscal year ending June 30, 2013.

Acquisition of Creighton University Medical Center (Nebraska). On September 1, 2012, Alegent Health acquired certain assets, licenses and contracts of Creighton University Medical Center ("*CUMC*"), a 220-bed acute care hospital located in Omaha, Nebraska, from Creighton University ("*Creighton*") and its clinical partner Tenet Healthcare Corporation for $40 million. The combined organization is now known as "*Alegent Creighton Health*." Alegent Creighton Health also assumed the operations of Creighton Medical Associates, now known as "*Alegent Creighton Clinic*." The names of Creighton University Medical Center and the hospitals in the Alegent system will remain the same. Alegent Creighton Health entered into a Strategic Affiliation Agreement with Creighton whereby Alegent's hospitals (including the former CUMC facility) will become the primary teaching sites for Creighton's School of Medicine.

II. WASHINGTON TRANSACTIONS

Potential Affiliation with PeaceHealth. In August 2012, the Corporation and PeaceHealth signed a non-binding letter of intent to create a new regional health care system, combining seven of CHI's hospitals in Washington and Oregon with approximately 1,000 beds (and additional hospitals that may be acquired by Franciscan Health System, as described below), with nine PeaceHealth hospitals in Washington, Oregon and Alaska, with approximately 1,400 beds. PeaceHealth, a not for profit health care system with services located in Alaska, Washington and Oregon, reported approximately $2.9 billion in total assets, $1.5 billion in total net assets and $1.9 billion of total revenues as of and for the year ended June 30, 2011. The new organization would include nearly 26,000 employees and approximately 950 employed physicians.

The Corporation presently consolidates the operations of its seven Washington and Oregon hospitals in its financial statements. While the parties have not agreed to a particular organizational structure, certain proposed transaction structures would result in the reporting of the Corporation's interest in the newly formed entity as an equity investment in an unconsolidated organization in the Corporation's financial statements. The transaction is subject to approval of the governing bodies of the parties, negotiation and execution of a definitive agreement, and satisfaction of applicable regulatory approval as well as the approval of Church authorities. Though no specific deadline has been established, the organizations are working toward the completion of this transaction before June 30, 2013.

Potential Acquisitions in Washington. Franciscan Health System ("*FHS*") is exploring certain affiliation opportunities in its market. In July 2012, FHS and Highline Medical Center in Burien, Washington ("*Highline*"), signed a non-binding letter of intent to explore a possible affiliation. Highline owns and operates a 154-bed acute care hospital, a 115-bed specialty center and more than 20 clinics in the State of Washington. As of and for the year ended December 31, 2011, Highline reported approximately $243 million of total assets, $60 million of total net assets and $197 million in net operating

In October 2012, FHS and Harrison Medical Center ("*Harrison*") signed a non-binding letter of intent to explore a possible affiliation. As of and for the fiscal year ended April 30, 2012, Harrison reported approximately $389 million of total assets, $212 million of total net assets and $345 million in total operating revenue. Harrison owns and operates 297 licensed beds (260 available beds) within two acute care facilities. The facilities are located in Bremerton, Washington and in unincorporated Silverdale, Washington. Harrison also owns and operates two urgent care/primary care clinics as well as specialty clinics. FHS has established separate affiliation committees with respect to each of the Highline and Harrison transactions to evaluate the benefits of an alliance and to determine the appropriate structure for any relationship. FHS and Highline are working toward completion of a transaction by early 2013. FHS and Harrison are working toward completion of a transaction by June 30, 2013. In each case, any definitive agreement would need to be approved by the governing bodies of the parties and the Board of Stewardship Trustees, and any agreement also requires the approval by the Washington State Department of Health and other regulatory agencies.

Potential Acquisition of Soundpath Health. The Corporation has agreed to purchase a majority interest in Soundpath Health for approximately $24 million. Soundpath Health, a physician-owned health care plan headquartered in Federal Way, Washington with over 6,500 providers in its network, offers Medicare Advantage plans to over 17,000 members in nine counties in the state of Washington. Under the agreement, Soundpath Health, owned by Physicians of Southwest Washington and Northwest Physicians Network, will transfer a majority interest in Soundpath Health to an affiliate of the Corporation, which also will manage and operate Soundpath Health. The completion of the transaction is contingent upon the approval by the Washington State Office of the Insurance Commissioner.

III. POTENTIAL DIVESTITURES

St. Joseph Medical Center (Maryland). In April 2012, the Corporation entered into a non-binding letter of intent with respect to the divestiture of St. Joseph Medical Center in Towson, Maryland to the University of Maryland Medical System. The parties are working toward an asset purchase agreement, and the transaction is anticipated to become effective on December 1, 2012. The transaction is subject to approval of the governing bodies of the parties, negotiation and execution of an asset purchase agreement, and satisfaction of applicable regulatory approval as well as the approval of Church authorities. Total operating revenues of St. Joseph Medical Center for the fiscal year ended June 30, 2012 were $327.8 million. CHI reported the deficiency of revenue over expenses (net loss) in discontinued operations in the statement of changes in net assets in the 2012 financial statements. If the transaction is completed, the Corporation anticipates that it will use a portion of the proceeds received from the divestiture to redeem or defease approximately $120 million of the existing debt relating to St. Joseph Medical Center.

Saint Clare's Health System (New Jersey). The Corporation and Ascension Health Care Network, Inc. are working toward a definitive agreement with respect to the divestiture of a portion of Saint Clare's Health System in New Jersey. The transaction is anticipated to close before the end of CHI's fiscal year ending June 30, 2013. The transfer requires certain approvals, including the approval of the Board of Stewardship Trustees and certain governmental approvals. Total operating revenues of Saint Clare's Health System for the fiscal year ended June 30, 2012 were $334.9 million. CHI reported the deficiency of revenue over expenses (net loss) in discontinued operations in the statement of changes in net assets in the 2012 financial statements. If the transaction is completed, the Corporation anticipates that it will redeem or defease approximately $76 million of the existing debt relating to Saint Clare's Health System using its own funds. The Corporation presently intends to seek other buyers for any of the Saint Clare's Health System facilities that are not divested in this current transaction. As a result, any remaining Saint Clare's Health System facilities will continue to be reflected as discontinued operations in the Corporation's statement of changes in net assets in the 2012 financial statements.

Saint Mary's Healthcare Center (South Dakota). The Corporation has entered into a non-binding letter of intent with respect to the divestiture of Saint Mary's Healthcare Center, Pierre, South Dakota to Avera Health. The parties are working toward a definitive agreement, and the Corporation anticipates that the transaction, if consummated, would be completed by the end of the calendar year 2012. The transfer requires certain approvals, including approval of the Board of Stewardship Trustees and certain governmental approvals. Total operating revenues of Saint Mary's Healthcare Center for the fiscal year ended June 30, 2012 were $51.7 million. CHI reported the deficiency of revenue over expenses (net loss) in discontinued operations in the statement of changes in net assets in the 2012 financial statements.

IV. OTHER TRANSACTIONS

Conifer Health Solutions Transaction. In May 2012, the Corporation entered into a 10-year agreement with Conifer Health Solutions, a subsidiary of Tenet Healthcare Corporation, ("*Conifer*") to provide revenue cycle services for 56 of CHI's hospitals across the nation effective July 1, 2012 (the "*Conifer Agreement*"). Implementation of the Conifer Agreement will include the transition of CHI's revenue cycle employees to Conifer, which is expected to be completed within 24 months. In addition, the Corporation received a minority ownership position in Conifer. CHI management expects that entering into the Conifer Agreement will increase its ability to stabilize its revenue cycle costs in the face of health reform, changes in commercial payer reimbursement rates, expanding Medicaid eligibility, and increasing requirement for investments in information technology.

Potential Affiliation Partner for St. Vincent Health System (Arkansas). In August 2012, St. Vincent Health System ("*St. Vincent*") entered into a non-binding letter of intent with The University of Arkansas for Medical Sciences ("*UAMS*") to explore opportunities for an affiliation to deliver collaborative and or integrated services. The parties intend that any affiliation pursued would preserve UAMS' public identity and St. Vincent's Catholic identity.

C. COMMUNITY BENEFIT

In accordance with its mission and values, CHI commits substantial resources to sponsor a broad range of services to the poor as well as the broader community. Community benefit to the poor 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.

Community benefit provided to the broader community includes the costs of providing services to other populations that may not qualify as poor 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. In addition, it includes all services that 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.

The cost to CHI of community benefit provided to the poor and the broader community (excluding unpaid Medicare costs) totaled $589 million, $612 million and $715 million in the fiscal years ended June 30, 2010, 2011 and 2012, respectively.

D. INDUSTRY RISKS

For a description of industry risks, see "*BONDHOLDERS' RISKS*" in the forepart of this Offering Memorandum.

E. PATIENT VOLUME

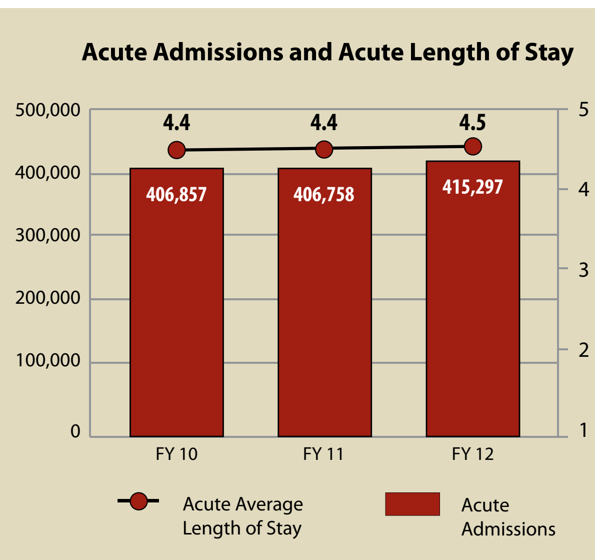
The table below provides selected aggregate utilization statistics for the general acute care hospitals and long-term care facilities within the CHI Reporting Group for the fiscal years ended June 30, 2010, 2011 and 2012.

	Fiscal Year Ended June 30,		
	2010	2011	2012
Acute Admissions	406,857	406,758	415,297
Acute Inpatient Days	1,789,070	1,789,237	1,864,221
Acute Average Length of Stays (Days)	4.4	4.4	4.5
Long-term Care Days[1]	404,401	397,298	390,113

[1] Includes days in skilled nursing units and nursing homes.

The table below provides selected aggregate utilization statistics for the general acute care hospitals and long-term care facilities within CHI for the fiscal years ended June 30, 2010, 2011 and 2012.

	Fiscal Year Ended June 30,		
	2010	2011	2012
Acute Average Length of Stays (Days)	4.4	4.4	4.5
Medicare Case Mix Index	1.62	1.61	1.63
Inpatient Surgeries	105,380	104,813	106,647
Outpatient Surgeries	159,245	173,309	181,337
Inpatient ER Visits	168,845	174,988	181,761
Outpatient ER Visits	1,210,412	1,233,374	1,314,985
Outpatient Non-ER Visits	3,901,248	3,932,991	4,019,604



F. INDEBTEDNESS

The obligations of the Corporation to pay debt service on its commercial paper notes and revenue bonds described below are secured by Obligations issued under the Capital Obligation Document. Obligations also secure the Corporation's obligation to provide funds for the purchase of VRDBs, Window VRDBs, Direct Purchase Bonds and Long-Term Rate Bonds (each as hereinafter defined) that are tendered for purchase or subject to mandatory tender for purchase and not remarketed.

The sources of liquidity are described below in Section H. The obligations of the Corporation to repay advances made under the various external liquidity facilities described below are also secured by Obligations issued under the Capital Obligation Document.

I. INDEBTEDNESS OUTSTANDING AT JUNE 30, 2012

At June 30, 2012, the Corporation's outstanding indebtedness secured by Obligations issued under the Capital Obligation Document totaled $4.7 billion, of which $3.2 billion (67%) is related to fixed rate debt (including for these purposes Fixed Rate Bonds and Long-Term Rate Bonds (each as hereinafter defined) that are subject to mandatory tender on dates occurring after June 30, 2013), and $1.5 billion (33%) is related to variable-rate debt (including for these purposes Long-Term Rate Bonds that are subject to mandatory tender on dates occurring on or prior to June 30, 2013, Commercial Paper Notes, VRDBs, Window VRDBs and Direct Purchase Bonds (each as hereinafter defined)).

Fixed Rate Bonds (*"Fixed Rate Bonds*"): At June 30, 2012, the Corporation had outstanding approximately $2.8 billion (including $49 million of unamortized original issue discount and original issue premium) of Fixed Rate Bonds issued by governmental issuers for the benefit of the CHI Credit Group.

Commercial Paper Notes ("*Commercial Paper Notes*"): The Corporation has in place a commercial paper program that permits the issuance of up to $881 million in aggregate principal amount of Commercial Paper Notes. At June 30, 2012, the Corporation had outstanding $475.6 million of Commercial Paper Notes. J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC are dealers for the Commercial Paper Notes. The Corporation has directed those dealers to tranche the maturities so that no greater than approximately one-third of the outstanding balance matures in any one month, and no more than $100 million matures per dealer within any five business-day period. The Corporation has, from time to time, directed its dealers to deviate from this structuring, and anticipates that it may do so again in the future.

Variable Rate Demand Bonds ("*VRDBs*"): At June 30, 2012, the Corporation had outstanding approximately $543.5 million of VRDBs issued by a governmental issuers for the benefit of the CHI Credit Group. VRDBs bear interest at variable rates (currently determined weekly) and are subject to optional tender for purchase by their holders. At June 30, 2012, $380.2 million of VRDBs were supported by dedicated liquidity facilities provided by commercial banks, and the remaining $163.3 million of VRDBs were supported by self liquidity.

Window Variable Rate Bonds ("*Window VRDBs*"): At June 30, 2012, the Corporation had outstanding approximately $158.2 million of Window VRDBs issued by governmental issuers for the benefit of the CHI Credit Group. Window VRDBs bear interest at "*window variable interest rates*" that are set weekly based on the sum of the SIFMA Swap Index plus a window variable interest rate spread determined by a remarketing agent. The initial window variable interest rate spread was set at 10 basis points.

Window VRDBs are not supported by any external dedicated liquidity facility. Holders of Window VRDBs have a right to optionally tender their bonds for purchase. If the tendered Window VRDBs are not successfully remarketed within the 30 day period that follows the date that notice of such optional tender is received by the remarketing agent (the "*Remarketing Window*"), then all Window VRDBs of the same series are required to be purchased on the day that is 210 days after notice of such optional tender is received by the remarketing agent (the *"Window Mandatory Tender Date*"). The period from the end of the Remarketing Window until the Window Mandatory Tender Date (initially, 180 days) is referred to as the "*Funding Window*." During the Funding Window, CHI management expects that it would analyze the then current market conditions and availability and relative cost of refinancing or restructuring alternatives for those Window VRDBs that are required to be purchased on the Window Mandatory Tender Date (including, without limitation, conversion to another interest mode, refinancing or repayment).

Direct Purchase Variable Rate Bonds (*"Direct Purchase Bonds*"): At June 30, 2012, the Corporation had outstanding $245.3 million of Direct Purchase Bonds issued by governmental issuers for the benefit of the CHI Credit Group and privately placed directly with holders. Direct Purchase Bonds bear interest at variable rates determined monthly based upon a percentage of the LIBOR rate plus a spread based upon the credit rating of CHI, and are subject to mandatory tender on the dates and in the amounts described below.

Series	Principal Amount	Scheduled Mandatory Tender Date
Washington 2008A	$120.3 million	July 29, 2013
Colorado 2011C	$125.0 million	November 10, 2018

In the event either series of Direct Purchase Bonds is not remarketed (either to the existing holder or to a new holder) or refinanced on a scheduled mandatory tender date, as long as no event of default has occurred, CHI is permitted by the terms of its agreements with such holders to repay those bonds over a three year period of time.

Long-Term Rate Bonds ("*Long-Term Rate Bonds*"): At June 30, 2012, the Corporation had outstanding $412.8 million of Long-Term Rate Bonds issued by governmental issuers for the benefit of the CHI Credit Group. Each series of Long-Term Rate Bonds bears interest at a fixed rate for a specified period, and is subject to mandatory tender at the end of that period, on the date and in the principal amount described below. Long-Term Rate Bonds are not subject to optional tender for purchase.

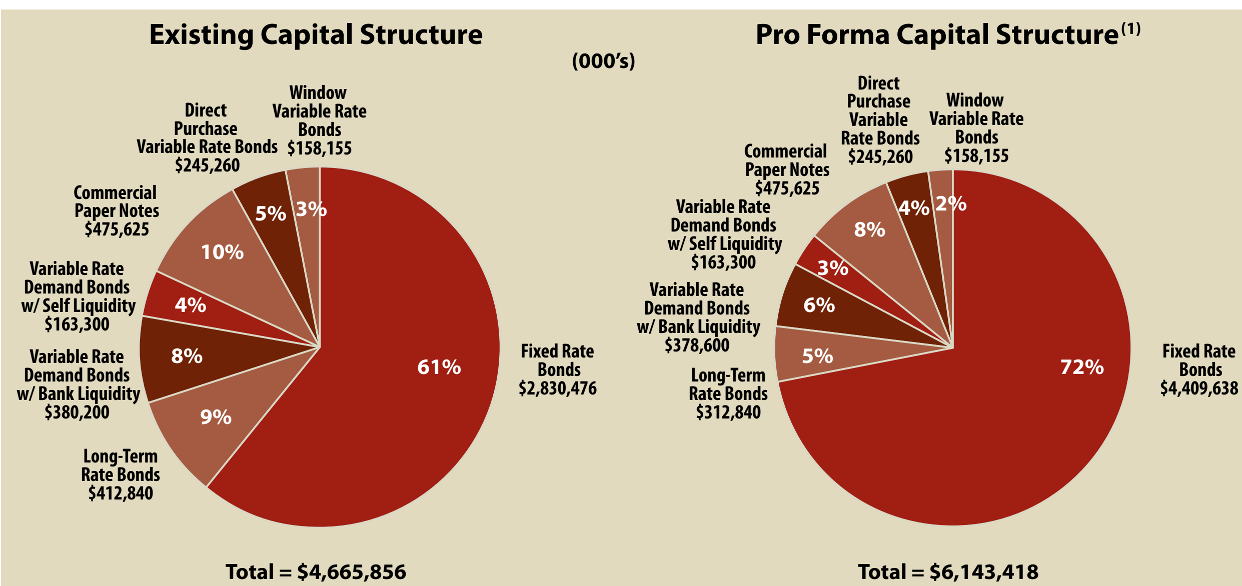
Series	Principal Amount	Mandatory Tender Date
Colorado 2009B-1	$100.000 million	November 8, 2012[1]
Colorado 2008D-2	$21.845 million	November 12, 2013
Colorado 2009B-2	$33.855 million	November 12, 2013
Ohio 2008D-2	$25.000 million	November 12, 2013
Ohio 2009B	$27.140 million	November 12, 2013
Colorado 2009B-3	$40.000 million	November 11, 2014
Kentucky 2009B	$60.000 million	November 11, 2014
Colorado 2008C-2	$27.500 million	November 12, 2015
Colorado 2008C-4	$27.500 million	November 12, 2015
Colorado 2008D-3	$50.000 million	November 12, 2015

(1) The Corporation plans to convert these Bonds on November 8, 2012 to bear interest at fixed interest rates.

II. PRO FORMA INDEBTEDNESS

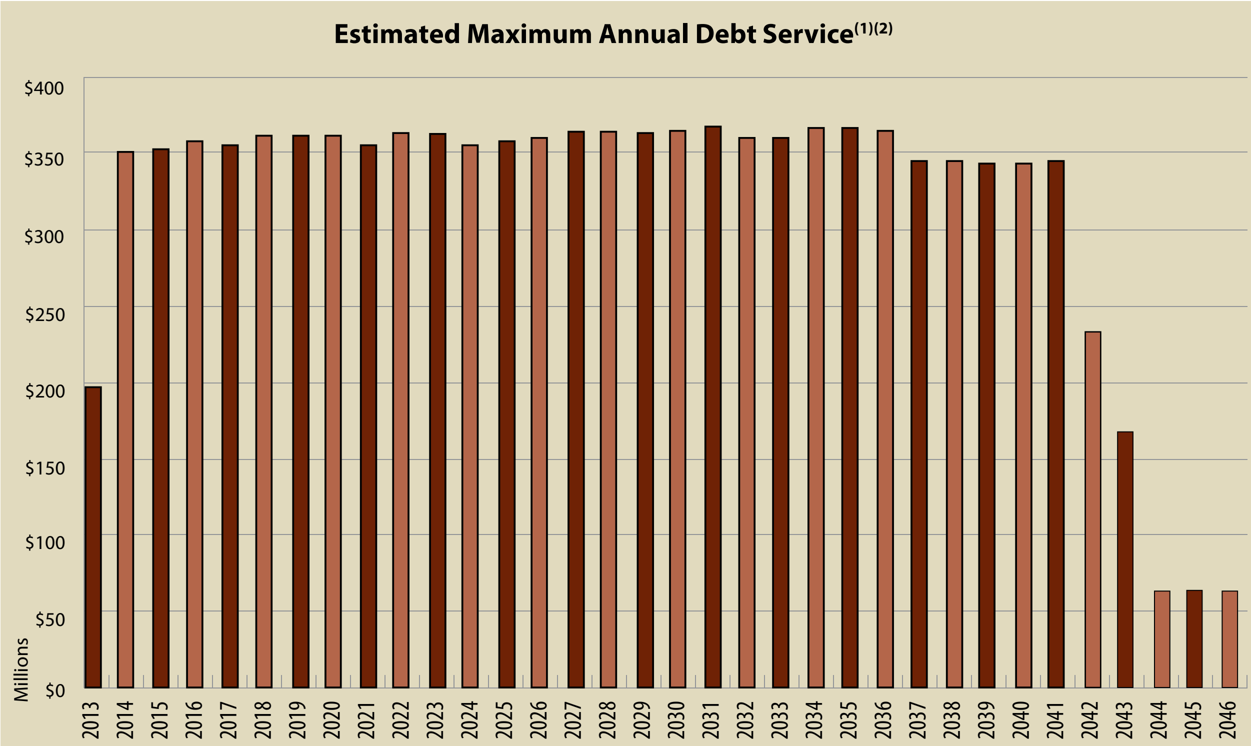
Upon the execution of the Plan of Finance described under the caption "*PLAN OF FINANCE*" in the forepart of this Offering Memorandum, the Corporation's outstanding indebtedness is expected to total $6.1 billion, of which $4.7 billion (76.9%) is related to fixed rate debt (including for this purpose Fixed Rate Bonds and Long-Term Rate Bonds that are subject to mandatory tender on dates occurring after June 30, 2013), and $1.4 billion (23.1%) is related to variable-rate debt (including for this purpose Long-Term Rate Bonds that are subject to mandatory tender on dates occurring on or prior to June 30, 2013, Commercial Paper Notes, VRDBs, Window VRDBs and Direct Purchase Bonds). The actual composition of the Corporation's outstanding indebtedness will depend on market conditions and other factors and may vary from the allocation described above.

The chart below illustrates the CHI Reporting Group's capital structure both prior to and upon execution of the expected Plan of Finance.



(1) Pro forma mix reflects redemption of a portion of existing bonds, scheduled amortizations for the remaining debt and proposed Plan of Finance.

The chart below shows the CHI Reporting Group's estimated maximum annual debt service following execution of the Plan of Finance.



(1) Excludes taxable commercial paper.

(2) The calculation of the total maximum annual debt service requirements on Long-Term Indebtedness assumes that (A) VRDBs with related Swap Agreements bear interest through their respective maturity dates at their respective swap rates, (B) the other VRDBs, Window VRDBs and Direct Purchase Bonds bear interest through their respective maturity dates at a 3.50% average annual interest rate and (C) Long-Term Rate Bonds bear interest through their respective maturity dates at their respective interest rates established for their current long-term interest periods. The calculation also assumes the issuance of the Taxable 2012 Bonds and the conversion of the Series 2009B-1 Bonds as described under the caption "*PLAN OF FINANCE*" in the forepart of this Offering Memorandum, assuming that the Taxable 2012 Bonds bear interest at 5.35%, which is the 20-year historical average of 30-year Treasury rates, and amortize on a level debt service basis over a 30-year period.

Assuming the Plan of Finance is completed as described under the caption "*PLAN OF FINANCE*" in the forepart of this Offering Memorandum, the Pro Forma debt to capitalization ratio (calculated as described in Part III, Section A) for the CHI Reporting Group would have been 44.1% for the fiscal year ended June 30, 2012, and the Pro Forma Maximum Annual Debt Service Coverage Ratio (calculated as described in Part III, Section A) for the CHI Reporting Group would have been 3.4x for the fiscal year ended June 30, 2012.

G. INVESTMENTS

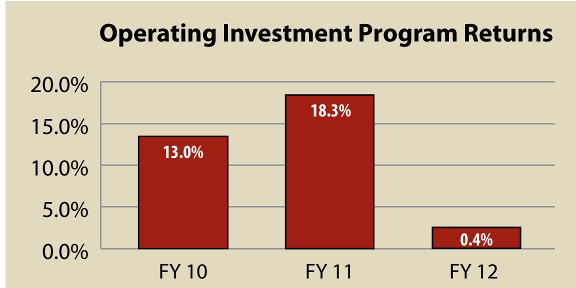
The CHI Operating Investment Program (the "*Program*") is an investment pool administered by the treasury services function of the Corporation. The Program is structured as a limited partnership with the Corporation as the managing general partner. The Corporation contracts with investment advisers to manage the investments within the Program. The Corporation requires all Participants, other than foundations, to invest in the Program. The Program is also utilized voluntarily by Alegent. Bethesda does not participate in the Program.

The Program consists of equity, fixed income and alternative investments (e.g., private capital, hedge funds and real estate interests). The asset allocation is established by the Investment Committee of the Board of Stewardship Trustees. At June 30, 2012, the allocation was 35% fixed income, 44% equities, 19% alternative investments and 2% cash and equivalents. The fixed income securities are invested primarily in U.S. Treasuries and agency securities and high quality mortgage backed securities (including

GNMA, FNMA and FHLMC). The 44% allocation to equities is comprised of 24% domestic equities and 20% international equities. At June 30, 2012, the domestic equity segment was invested in large, mid and small cap publicly traded securities.

At June 30, 2010, 2011 and 2012, the CHI Credit Group had internally designated investments of $4.9 billion, $5.7 billion and $5.7 billion, respectively, the majority of which are invested in the Program. At June 30, 2010, 2011 and 2012, $289.5 million, $331.1 million and $364.8 million, respectively, of internally designated investments were attributable to Alegent.

The Program's investment return for the fiscal years ended June 30, 2010, 2011 and 2012 is set forth in the chart below.



H. LIQUIDITY AND CAPITAL RESOURCES

I. LIQUIDITY AND OTHER FINANCIAL ARRANGEMENTS

Liquidity Facilities. As described in the chart below, the Corporation maintains several external liquidity facilities, including dedicated liquidity facilities and general liquidity facilities. External dedicated liquidity facilities are provided by commercial banks and dedicated to certain VRDBs. Each dedicated liquidity facility is subject to extension of its expiration date at the sole discretion of the provider of such liquidity facility. The Corporation's general liquidity facilities are used exclusively to support its obligations to fund tenders of VRDBs, Window VRDBs and Long-Term Rate Bonds and to pay the maturing principal of the Commercial Paper Notes in the event remarketing proceeds are unavailable for such purpose.

Credit Agreements by Bank and Expiration

Dedicated Self-Liquidity Lines

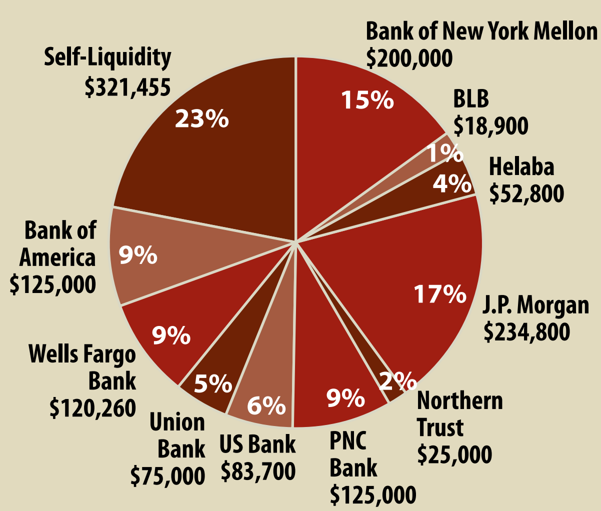
Bank	Par (000's)	Expiration
Bank of New York Mellon[1]	$100,000	12/15/2012
PNC Bank	125,000	08/25/2013
Union Bank of CA	75,000	12/03/2013
Northern Trust	25,000	03/30/2014
J.P. Morgan	50,000	05/19/2014
Bank of New York Mellon	60,000	12/15/2014
Total	$435,000	

SBPA/Direct Purchase

Bank	Par (000's)	Expiration
J.P. Morgan[2]	$ 74,100	11/16/2012
Helaba[2]	52,800	11/17/2012
Bank of New York Mellon[1]	40,000	12/15/2012
Wells Fargo Bank	120,260	07/29/2013
J.P. Morgan	54,200	11/17/2013
J.P. Morgan	56,500	08/19/2014
U.S. Bank	33,700	11/01/2014
U.S. Bank	50,000	11/10/2014
BLB	18,900	11/30/2015
Bank of America	125,000	11/10/2018
Total	$625,460	

(1) Renewal in process.
(2) Substitution in process.

Credit Agreements by Bank as of June 30, 2012 ($000s)



Master Repurchase Agreement. The Corporation has a Master Repurchase Agreement with The Bank of New York Mellon ("*BNY Mellon*"). Subject to the approval of BNY Mellon, the Corporation may enter into repurchase agreements with counterparties for securities with a market value of up to $300 million. The ability to enter into a repurchase transaction is dependent upon a variety of conditions, including the availability of high quality, fixed income securities acceptable to the counterparty. Minimum collateral requirements apply, depending upon the type of securities posted and a LIBOR-based loan rate is paid to the counterparty.

II. CASH EQUIVALENTS AND INTERNALLY DESIGNATED INVESTMENTS

At June 30, 2012, 2011 and 2010, the CHI Reporting Group had cash and equivalents and internally designated investments (including net unrealized gains and losses) as described in the table below.

Unaudited (000s)		**Fiscal Year Ended June 30,**	
	2012	**2011**	**2010**
Cash and Equivalents	$488,794	$547,840	$544,832
Internally Designated Investments	5,716,643	5,685,772	4,910,719
Total	$6,205,437	$6,233,612	$5,455,551

CHI holds highly liquid investments to enhance its ability to satisfy liquidity needs. Asset allocations are reviewed on a monthly basis and compared to investment allocation targets included within CHI's investment policy. The following presents a CHI summary liquidity report as of June 30, 2012:

Liquidity Report[(1)] **(000s)**	**Unaudited June 30, 2012**
ASSETS	
Daily Liquidity	
Money Market Funds (SEC 2a-7 compliant and Aaa-rated by Moody's)	$298,754
Checking and deposit accounts at P-1 rated bank	45,415
US Treasuries and Aaa-rated agency securities with less than 3 year maturity	307,230
US Treasuries and Aaa-rated agency securities with greater than 3 year maturity	90,284
Dedicated Lines	
Standby Bond Purchase Agreements (certain VRDBs)	380,200
Self Liquidity Lines (VRDBs, Window VRDBs, CP & Long-Term Rate Bonds)	435,000
Subtotal Daily Liquidity (Cash, Securities & Bank Lines)	$1,556,883
Weekly Liquidity	
Fixed Income: Other investment grade publicly-traded holdings	$1,349,710
Equities: Exchange-traded equity (ownership of shares of stock)	2,088,009
Subtotal Weekly Liquidity	$3,437,719
Total Daily & Weekly Liquidity	$4,994,602
Longer Term Liquidity	
Funds, vehicles, investments that allow withdrawals with one month notice or longer	$375,882
Total Longer Term Liquidity	$375,882

(1) Includes CHI only; does not include Designated Affiliates. Net assets available for liquidity would be greater if Designated Affiliates whose assets are available under certain circumstances were included in this information.

Liquidity Report[1] (000s)	Unaudited June 30, 2012
Other Sources of Liquidity	
Undrawn portion of $881 million Commercial Paper Notes	$405,375
Total Other Sources of Liquidity	$405,375
Total Sources of Liquidity	$5,775,859
DEBT SUBJECT TO TENDERS WITHIN TWELVE MONTHS	
Bonds Subject to Periodic Tender	
VRDBs with Standby Bond Purchase Agreements	$380,200
VRDBs with Self Liquidity	163,300
Window VRDBs	158,155
Subtotal Bonds Subject to Periodic Tender	$701,655
Bonds Subject to Mandatory Tender within Twelve Months	
Long-Term Rate Bonds[2]	$100,000
Commercial Paper Notes[3]	$475,625
Total Debt Subject To Tenders Within Twelve Months	$1,277,280

(1) Includes CHI only; does not include Designated Affiliates. Net assets available for liquidity would be greater if Designated Affiliates whose assets are available under certain circumstances were included in this information.

(2) The Corporation plans to convert these Bonds on November 8, 2012 to bear interest at fixed interest rates.

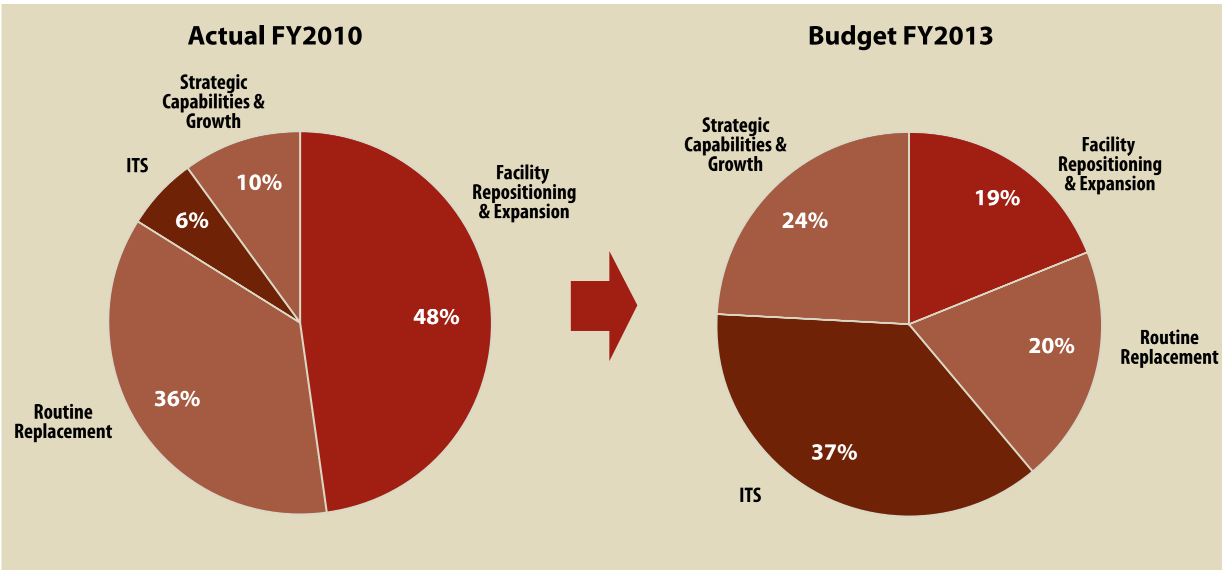
(3) As noted above, the Corporation has directed broker-dealers to tranche the maturities so that no greater than approximately one-third of the outstanding balance matures within one month and no more than $100 million matures within any five day period. The Corporation has, from time to time, directed its dealers to deviate from this structuring and anticipates that it may do so again in the future.

I. SWAP AGREEMENTS

The Corporation utilizes various interest rate swap derivative contracts ("*Swap Agreements*") to manage the risk of increased interest rates payable on certain variable-rate bonds and operating lease payments. The Corporation is currently party to seven floating-to-fixed Swap Agreements with aggregate notional amounts totaling $931.8 million and $942.8 million at June 30, 2012 and 2011, respectively. Generally, it is the Corporation's policy that all counterparties have an AA rating or better at the time of execution. These fixed-payor Swap Agreements have the general effect of converting the Corporation's variable rate debt to fixed rate, although there may be differences between the variable rate payments received by the Corporation under the Swap Agreements and its variable rate payments on the related debt. The seven Swap Agreements have varying termination dates ranging from May 2025 to December 2036. The Swap Agreements require the Corporation to provide collateral if the Corporation's liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based upon the rating on the Corporation's long-term indebtedness. At June 30, 2012 and June 30, 2011, the fair value of the Swap Agreements were obligations of $238.5 million and $116.6 million, respectively. The fair value was reported net of cash collateral balances of $140.7 million and $47 million at June 30, 2012 and June 30, 2011, respectively, and is recorded in other liabilities. The change in the fair value of these agreements was a net loss of $121.9 million and a net gain of $26.9 million for fiscal years June 30, 2012 and 2011, respectively. The Corporation's payment obligations under the Swap Agreements are secured by Obligations issued under the Capital Obligation Document.

J. CAPITAL EXPENDITURES

Historically, a large part of CHI's capital allocation was directed at facility repositioning and expansion. Consistent with its strategic initiatives, CHI's capital budget for fiscal year 2013 (which is approximately $1.1 billion), reflects a significant shift in capital allocation from facility costs to strategic growth and information technology, as shown in the chart below, which compares the allocation of CHI's capital spending in 2010 (which was approximately $825 million) to the budgeted capital spending for fiscal year 2013.



Historically, CHI has funded the majority of its capital needs from cash derived from operations and the proceeds of long-term indebtedness. Annual capital expenditures are expected to be approximately $1 billion annually over the next several fiscal years, exclusive of merger and acquisition activity. The capital spending plans are based upon projections of operating performance during those periods, so actual capital expenditures in the period may vary significantly from these expected amounts. Additionally, the Corporation may commit to provide certain levels of capital support in certain markets in furtherance of its merger and acquisition activities. The Corporation currently expects Participants to satisfy certain financial targets and cash flow requirements before extending commitments for capital expenditures. The ability of the Designated Affiliates to incur additional indebtedness is also limited by agreements between the Designated Affiliates and the Corporation.

Consistent with CHI's strategic goals, management of the Corporation expects that a portion of the proceeds of the Taxable 2012 Bonds may be used to finance costs associated with its merger and acquisition activity.

K. RETIREMENT PLANS

CHI maintains noncontributory, defined benefit retirement plans (the "*Plans*") covering substantially all employees. Benefits in the Plans are based on compensation, retirement age and years of service. Vesting occurs over a five-year period. Substantially all of the Plans are qualified as church plans and are exempt from certain provisions of both the Employee Retirement Income Security Act and Pension Benefit Guaranty Corporation premiums and coverage. Funding requirements are determined through consultation with independent actuaries. CHI recognized pension costs of $163.8 million and $176 million in 2012 and 2011, respectively.

CHI recognizes the funded status (that is, the difference between the fair value of the plan assets and the projected benefit obligations) of its Plans in the consolidated balance sheets, with a corresponding adjustment to net assets. Actuarial gains and losses that arise and are not recognized as net period pension cost in the same periods are recognized as a component of net assets.

The assumption for the expected return on the Plans' assets is based on historical returns and adherence to the asset allocations set forth in the Plans' investment policies. The expected return on the Plans' assets for determining pension cost was 8.00% in 2012 and 2011. The decrease in the discount rate from 5.39% at June 30, 2011 to 4.06% at June 30, 2012 increased the pension benefit obligation by approximately $420.3 million.

The Plans' assets are invested in a portfolio designed to preserve principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. A summary of the Plans' asset allocation targets, ranges by asset class and allocations by asset class at the measurement dates of June 30 is as follows:

Unaudited[1]	2012	2011	Target	Range
Fixed-income securities	29.8%	26.1%	27.5%	17.5–37.5%
Equity securities	51.2	53.7	52.5	42.5–62.5
Alternative investments	19.0	20.2	20.0	10.0–30.0

At the June 30, 2012 measurement date, the projected benefit obligation in excess of the fair value of plan assets for the Plans was approximately $892.8 million compared to $315.5 million at June 30, 2011. This increase in unfunded pension liability resulted from several factors, but was most significantly impacted by the decline in the discount rate from 5.39% at June 30, 2011 to 4.06% at June 30, 2012, as well as investment performance below assumed long-term expectations. The decrease to net assets from the increase in unfunded pension liability at June 30, 2012 was $618.1 million.

CHI expects to contribute approximately $195.1 million to its Plans during the fiscal year ended June 30, 2013. For additional information regarding the Plans, see Note 10 of the audited financial statements in Appendix B.

L. COVENANT COMPLIANCE

The Historical Long-Term Debt Service Coverage Ratio of the CHI Reporting Group (calculated in accordance with the Capital Obligation Document) is presented below.

Unaudited[(1)] (000s)		Fiscal Year Ended June 30, 2012	2011	2010
Income Available for Debt Service				
Total Revenues		$10,688,873	$10,756,964	$9,725,851
Total Operating Expenses		10,543,656	9,493,061	8,962,844
Excess of Revenues Over Expenses		145,217	1,263,903	763,007
Add:	Interest Expense	128,513	114,311	87,419
Add:	Depreciation and Amortization	538,121	502,665	483,120
Add:	Restructuring, Impairment and other Losses	22,676	16,741	35,833
Add:	Losses (Gains) on Defeasance of Bonds and Escrow Restructuring	70,555	—	(2,896)
Add:	Realized & Unrealized Losses on Interest Rate Swaps	153,411	4,870	78,467
Add:	Net Unrealized Losses (Gains)	176,644	(495,913)	(230,142)
Total Adjustments to Excess of Revenues Over Expenses		1,089,920	142,674	451,801
	Total Income Available for Debt Service (A)	$1,235,137	$1,406,577	$1,214,808
Debt Service Requirements on Long-Term Indetedness[(2)]				
	Total CHI Reporting Group Principal Payments	$ 68,502	$ 69,393	$ 51,317
	Total CHI Reporting Group Interest Payments	143,221	129,793	113,814
	Total Debt Service Requirements on Long-Term Indetedness (B)	$211,723	$199,186	$165,131
Historical Long-Term Debt Service Coverage Ratio (A/B)		5.8x	7.1x	7.4x
	Pro Forma Maximum Annual Debt Service Requirements on Long-Term Indetedness[(3)] (C)	$365,875	$365,875	$365,875
Pro Forma Maximum Long-Term Debt Service Coverage Ratio (A/C)		3.4x	3.8x	3.3x

(1) Derived from the unaudited CHI Reporting Group financial information.

(2) Includes an immaterial amount of other long-term debt and capital leases that are not secured under the Capital Obligation Document and excludes taxable commercial paper.

(3) The calculation of the total maximum annual debt service requirements on Long-Term Indebtedness assumes that (A) VRDBs with related Swap Agreements bear interest through their respective maturity dates at their respective swap rates, (B) the other VRDBs, Window VRDBs and Direct Purchase Bonds bear interest through their respective maturity dates at a 3.50% average annual interest rate and (C) Long-Term Rate Bonds bear interest through their respective maturity dates at their respective interest rates established for their current long-term interest periods. The calculation also assumes the issuance of the Taxable 2012 Bonds and the conversion of the Series 2009B-1 Bonds as described under the caption "*PLAN OF FINANCE*" in the forepart of this Offering Memorandum, assuming that the Taxable 2012 Bonds bear interest at 5.35%, which is the 20-year historical average of 30-year Treasury rates, and amortize on a level debt service basis over a 30-year period.

M. BOND RATINGS

On October 16, 2012, in anticipation of the issuance of the Taxable 2012 Bonds, Standard & Poor's Rating Service revised its rating assigned to the Corporation's fixed rate unenhanced debt from AA (negative outlook) to AA- (stable outlook); Moody's Investor's Service, Inc. revised its rating assigned to the Corporation's fixed rate unenhanced debt from Aa2 (stable outlook) to Aa3 (stable outlook); and Fitch Ratings revised its rating assigned to the Corporation's fixed rate unenhanced debt from AA (stable outlook) to AA- (stable outlook).

N. COMBINED RESULTS OF OPERATIONS

I. FISCAL YEARS 2012 AND 2011

a. EXECUTIVE SUMMARY

Fiscal year 2012 overall financial performance declined over the prior fiscal year, with operating results showing modest increases year over year, but investment income falling significantly below prior year levels. Operating results were primarily impacted by growth strategies in several markets. The results of operations have been adjusted for the impact of the entities classified as held for sale as a result of management's decision to sell certain MBOs. Prior year operations have been prepared in a consistent manner as the fiscal year 2012 for comparability purposes. CHI continues its efforts to improve operating performance through revenue cycle, supply chain, and productivity enhancements as well as furthering the efforts of key strategic priorities to include Clinical and Operational Excellence, OneCare and profitable growth initiatives throughout its market.

b. SUMMARY OF OPERATING RESULTS–CHI REPORTING GROUP

The combined financial performance of the CHI Reporting Group for fiscal year 2012 as measured by income from operations improved slightly when compared to the operating results achieved in the prior fiscal year. Income from operations was $360.6 million (3.3% operating margin) for fiscal year 2012 compared to $352.4 million (3.6% operating margin) for the prior fiscal year.

Net patient services revenues for fiscal year 2012 increased 10.4% over the prior fiscal year while operating expenses, excluding restructuring, impairment and other losses, increased 10.8% over the prior fiscal year. Inpatient and long-term care volume indicators for the CHI Reporting Group declined from the prior fiscal year; however, favorable growth in outpatient and physician services largely related to fiscal year 2012 acquisitions and expansion of services, as well as the impact of rate increases, contributed favorably to fiscal year 2012 top-line net patient service revenue growth.

Total nonoperating losses were $215.4 million for fiscal year 2012 compared to gains of $911.5 million for the prior fiscal year. Although investment performance was positive for fiscal year 2012 ($19.7 million), it was not as strong as the prior fiscal year ($908.1 million) due to poor market conditions. Losses on defeasance of bonds were $70.6 million for fiscal year 2012, primarily related to the defeasance of JHSMH debt in fiscal year 2012. Additionally, realized and unrealized losses on the swap agreements were $153.4 million for fiscal year 2012 compared to losses of $4.9 million for the prior fiscal year. Excess of revenues over expenses for fiscal year 2012 was $145.2 million compared to $1,263.9 million for the prior fiscal year.

Fiscal year 2012 total operating revenues for CHI, Bethesda, and Alegent represented approximately 90.1%, 4.5%, and 5.4% respectively, of the CHI Reporting Group.

c. SUMMARY OF OPERATIONS–CHI

The consolidated operating results for CHI for fiscal year 2012 reflected modest growth over the prior year, although the operating margin declined to 3.2% for fiscal year 2012 from 3.6% in the prior fiscal year, largely the result of top line revenue growth and helped by government reimbursement income recognized in fiscal year 2012, offset by the impact of key strategic investments made during fiscal year 2012, most notably the OneCare strategy.

Total net patient services revenues increased 10.9% ($907 million) for fiscal year 2012 compared to the prior fiscal year. The acquisition of JHSMH as of

January 1, 2012, in addition to outpatient and physician volume growth across the markets, were the primary factors contributing to the improvement. The acute case-mix index increased to 1.47 for fiscal year 2012 compared to 1.44 in the prior fiscal year. Contractual allowances as a percentage of gross revenues increased to 62.7% for fiscal year 2012 compared to 61.8% for the prior fiscal year. Charity care as a percentage of gross revenues decreased to 3.6% for fiscal year 2012 compared to 3.8% for the prior fiscal year.

Total operating expenses, excluding restructuring, impairment and other losses, increased 11.6% ($987.4 million) for fiscal year 2012. Much of the expense increase was the result of the JHSMH acquisition, physician acquisitions, expansion of services in several markets and the cost of the key strategic initiatives undertaken by CHI, including OneCare implementations.

Labor costs (salaries, wages and benefit expenses) accounted for the most significant component of total operating expenses, excluding restructuring, impairment and other losses, representing 47.7% for fiscal year 2012 compared to 47.5% for the prior fiscal year. As a percentage of net patient services revenues, total labor costs were 49.1% for fiscal year 2012 compared to 48.6% for the prior fiscal year. Total labor costs increased 12.0% ($485.7 million) for fiscal year 2012 in large part due to increases in FTEs from the JHSMH acquisitions, increases in employed providers at several markets due to acquisition strategies, and increases in FTEs at the national office in support of key strategic priorities, including CHI's OneCare initiative.

Supplies expense increased 9.5% ($135.3 million, the majority attributable to JHSMH) for fiscal year 2012 compared to the prior fiscal year, below the 10.9% growth in net patient services revenues. As a percentage of net patient services revenues, supplies expense decreased to 17.0% for fiscal year 2012 compared to 17.2% for the prior fiscal year. CHI has had several process improvement initiatives in place for the last few years that have resulted in improved supply utilization as well as pricing and contracting improvements across the organization.

Bad debt expenses increased 2.7% ($18.4 million) for fiscal year 2012 compared to the prior fiscal year. As a percentage of net patient services revenues, bad debt expenses were 7.7% for fiscal year 2012 compared to 8.3% for the prior fiscal year.

Charity care deductions from patient services revenues as a percentage of net patient services revenues was 10.8% for fiscal year 2012 compared to 11.0% for the prior fiscal year. Bad debt expenses and charity care, combined as a percentage of net patient services revenues were 18.5% for fiscal year 2012 compared to 19.3% for the prior fiscal year.

Overall investment performance for fiscal year 2012 decreased significantly from the prior fiscal year. Net investment income, including income/losses used for operations as well as unrealized gains and losses, was $57 million for fiscal year 2012 compared to $834 million for the prior fiscal year.

d. SUMMARY OF OPERATIONS– BETHESDA

The consolidated financial performance of Bethesda Hospital, Inc. and Subsidiaries includes all entities required to be consolidated under GAAP for this entity, some of which are not included in the CHI Reporting Group financial statements. The consolidated operating results for Bethesda Hospital, Inc. and Subsidiaries for fiscal year 2012 improved from the results achieved in the prior fiscal year. The operating margin was 5.4% for fiscal year 2012 compared to 4.4% in the prior fiscal year. Total net patient services revenues increased 6.3% in fiscal year 2012 compared to the prior fiscal year, while total operating expenses increased 4.5%.

e. SUMMARY OF OPERATIONS– ALEGENT

The combined financial performance of Alegent includes all operations of Alegent Creighton Health and related entities including Alegent Creighton Bergan Mercy Health System and Affiliates and Immanuel Medical Center and Affiliates. The combined operating results for Alegent for fiscal year 2012 improved from the results achieved in the prior fiscal year. The operating margin was 3.2% for fiscal year 2012 compared to 2.3% in the prior fiscal year.

Total net patient services revenues increased 4.0% in fiscal year 2012 compared to the prior fiscal year, while total operating expenses increased 2.7%.

f. SUMMARY OF BALANCE SHEET– CHI REPORTING GROUP

Total combined assets increased 8.1% ($1.2 billion) to $16.3 billion at June 30, 2012 from June 30, 2011. Total investments and assets limited as to use increased 0.9% ($58.2 million) to $6.7 billion at June 30, 2012 from June 30, 2011. The acquisition of JHSMH, as well as several other physician practice acquisitions across the markets, were the primary factors contributing to the increase. Total assets for CHI, Bethesda, and Alegent represented approximately 89.5%, 4.4%, and 6.1% respectively of the CHI Reporting Group at June 30, 2012.

Days of total cash decreased to 228 days at June 30, 2012 from 254 at June 30, 2011. The primary factors contributing to the decrease in days of cash were decreases resulting from capital additions during fiscal year 2012 and decreases in net working capital. Partially offsetting these decreases were increases resulting from cash generated from operations and issuance of new debt discussed below under the caption "*Significant transactions*."

Net patient accounts receivable increased by 23.3% ($273.6 million) from June 30, 2011 to June 30, 2012. Days in accounts receivable increased to 51.6 days at June 30, 2012 compared to 46.1 days at June 30, 2011.

The current ratio was 1.1 at both June 30, 2012 and June 30, 2011. The current ratio is impacted by $644.6 million of Commercial Paper Notes and the current portion of outstanding debt, as well as $321.4 million of variable-rate debt with self liquidity classified as current. The debt-to-capitalization ratio increased to 37.6% at June 30, 2012 from 33.4% at June 30, 2011, primarily driven by additional issuances of debt in fiscal year 2012, as well as the 4.3% decrease in unrestricted net assets at June 30, 2012 resulting from declining investment income and the unfavorable impact of the increase in the unfunded pension liability of $618.1 million.

At the June 30, 2012 measurement date, the projected benefit obligation in excess of the fair value of plan assets for all Plans (CHI, Dayton, and Cincinnati) was approximately $892.8 million at June 30, 2012 compared to $315.5 million at June 30, 2011. This increase in unfunded pension liability resulted from several factors, but was most significantly impacted by investment performance during fiscal year 2012, as well as the change in actuarial losses and the decrease in the discount rate from 5.39% at June 30, 2011 to 4.06% at June 30, 2012. The decrease in net assets from the increase in unfunded pension liability at June 30, 2012 was $618.1 million.

Total net assets decreased by 4.% ($335.8 million) from June 30, 2011 to June 30, 2012, primarily the result of the decrease in net assets from the $618.1 million increase in the unfunded pension liability at June 30, 2012, which was offset by a $145.2 million increase from fiscal year 2012 excess of revenues over expenses.

g. SIGNIFICANT TRANSACTIONS

There were several significant transactions recorded in fiscal year 2012 as summarized below.

- ***Debt Issuance.*** In November 2011, CHI issued $809.2 million of Fixed Rate Bonds, VRDBs and Window VRDBs in the states of Colorado, Kentucky and Washington. The proceeds were used to refund $223.5 million of existing debt, and to redeem $116.8 million of commercial paper outstanding. CHI also redeemed $55.8 million of existing debt. These redemptions resulted in a loss on extinguishment of $0.7 million.

- ***JHSMH Debt Acquired and Defeased.*** In connection with the acquisition of JHSMH in January 2012, CHI acquired a total of $385 million of JHSMH bonds that were subsequently refunded and legally defeased in January and April 2012. Also in April 2012, CHI issued $271.3 million of par value bonds in the state of Kentucky, the proceeds of which were used in the refunding and legal defeasance of the JHSMH bonds. Total loss on debt extinguishment related to JHSMH bonds was $69.9 million.

- ***KentuckyOne Health***. On January 1, 2012, CHI acquired an additional 58% interest in JHSMH from JHHS in exchange for a noncontrolling interest in KentuckyOne Health, a new statewide network in the state of Kentucky, through the combination of JHSMH and St. Joseph Health System, a CHI-sponsored MBO. CHI has a controlling interest of 83% in KentuckyOne Health and JHHS has the remaining 17%. As a result of adding JHSMH to CHI's results, operating revenues increased \$496.5 million, income from operations before restructuring increased \$7.7 million, and (deficit) of revenues over expenses increased \$(62.2) million. The increase to (deficit) of revenues over expenses was due primarily to the losses on debt extinguishments of \$(69.9) million.

- ***CMS Settlements***. During fiscal year 2012, CHI's appeal on two reimbursement matters with CMS, the calculation used by CMS for the Rural Floor wage index and for the disallowance of insurance premiums paid to FIIL, were resolved in CHI's favor. CHI led the successful national industry appeal on the rural floor issue. As a result, net patient services revenues increased \$87.1 million, other nonpatient revenues increased \$9.5 million and operating expenses increased \$19.5 million due to the appeal.

II. FISCAL YEARS 2011 AND 2010

a. EXECUTIVE SUMMARY

For fiscal year 2011, overall financial performance improved over the prior fiscal year as a result of both positive operating results and very strong investment performance. Although overall volumes in fiscal year 2011 did not meet expectations, operating expenses were carefully managed, resulting in overall operating performance consistent with the prior fiscal year.

b. SUMMARY OF OPERATING RESULTS– CHI REPORTING GROUP

The combined financial performance of the CHI Reporting Group for fiscal year 2011 as measured by income from operations improved slightly when compared to the operating results achieved for the prior fiscal year. Income from operations was \$352.4 million (3.6% operating margin) for fiscal year 2011 compared to \$343.8 million (3.7% operating margin) for the prior fiscal year.

Net patient services revenues for fiscal year 2011 increased 5.9% over the prior fiscal year while operating expenses, excluding restructuring, impairment and other losses, increased 6.4% over the prior fiscal year. While inpatient and long-term care volume indicators for the CHI Reporting Group declined from the prior fiscal year, favorable growth in outpatient and physician services as well as the impact of rate increases, acquisitions and expansion of services contributed favorably to fiscal year 2011 top-line net patient service revenue growth.

Total nonoperating gains were \$911.5 million for fiscal year 2011 compared to \$419.2 million for the prior fiscal year. Overall investment performance for fiscal year 2011 was very strong and net investment earnings were up significantly from the prior fiscal year. Net investment income, including unrealized gains and losses, was \$908.1 million for fiscal year 2011 compared to \$483.5 million for the prior fiscal year. Additionally, realized and unrealized losses on the Swap Agreements were \$4.9 million for fiscal year 2011 compared to losses of \$78.5 million for the prior fiscal year. Excess of revenues over expenses for fiscal year 2011 was \$1,263.9 million compared to \$763 million for the prior fiscal year.

Fiscal year 2011 total operating revenues for CHI, Bethesda, and Alegent represented approximately 89.5%, 4.6%, and 5.9%, respectively, of the CHI Reporting Group.

c. SUMMARY OF OPERATIONS– CHI

The consolidated operating results for CHI for fiscal year 2011 declined from the results achieved in the prior fiscal year. The operating margin was 3.6% for fiscal year 2011 compared to 4.0% in the prior fiscal year.

There were several key factors that contributed to the decrease in operating margin noted above. Acute inpatient volume declines and rate shortfalls have occurred at several of CHI's markets, primarily due to the continuing impact of the economic downturn negatively impacting the operating margin.

Total net patient services revenues increased 6.7% ($525.8 million) for fiscal year 2011 compared to the prior fiscal year. Outpatient and physician volume increases were the primary factors contributing to the improvement. The acute case-mix index increased to 1.44 for fiscal year 2011 compared to 1.42 in the prior fiscal year. Contractual allowances as a percentage of gross revenues increased to 61.8% for fiscal year 2011 compared to 61.2% for the prior fiscal year. Charity care as a percentage of gross revenues increased to 3.8% for fiscal year 2011 compared to 3.6% for the prior fiscal year.

Total operating expenses, excluding restructuring, impairment and other losses, increased 7.5% ($593.2 million) for fiscal year 2011. Much of the expense increase was the result of physician acquisitions, expansion of services in several markets and the cost of the key strategic initiatives undertaken by CHI, including OneCare implementations.

Labor costs (salaries, wages and benefit expenses) accounted for the most significant component of total operating expenses, excluding restructuring, impairment and other losses, representing 47.5% for fiscal year 2011 compared to 47.8% for the prior fiscal year. As a percentage of net patient services revenues, total labor costs were 48.6% for fiscal year 2011 compared to 48.5% for the prior fiscal year. Total labor costs increased 7.0% ($264.7 million) for fiscal year 2011 in large part due to increases in FTEs across the markets, including an increase in employed providers, as well as an increase in FTEs at the national office in support of key strategic priorities, including CHI's OneCare initiative.

Supplies expense increased 3.3% ($45.1 million) for fiscal year 2011 compared to the prior fiscal year, below the 6.7% growth in net patient services revenues. As a percentage of net patient services revenues, supplies expense decreased to 17.2% for fiscal year 2011 compared to 17.8% for the prior fiscal year. CHI has had several process improvement initiatives in place for the last few years that have resulted in improved supply utilization as well as pricing and contracting improvements across the organization.

Bad debt expenses increased 10.3% ($64.6 million) for fiscal year 2011 compared to the prior fiscal year. As a percentage of net patient services revenues, bad debt expenses were 8.3% for fiscal year 2011 compared to 8.0% for the prior fiscal year.

Charity care deductions from patient services revenues as a percentage of net patient services revenues was 11.0% for fiscal year 2011 compared to 10.1% for the prior fiscal year. Bad debt expenses and charity care, combined as a percentage of net patient services revenues were 19.3% for fiscal year 2011 compared to 18.1% for the prior fiscal year.

Overall investment performance for fiscal year 2011 increased significantly from the prior fiscal year. Net investment income, including income/losses used for operations as well as unrealized gains and losses, was $834 million for fiscal year 2011 compared to $454.3 million for the prior fiscal year.

d. SUMMARY OF OPERATIONS–BETHESDA

The consolidated operating results for Bethesda Hospital, Inc. and Subsidiaries for fiscal year 2011 improved from the results achieved in the prior fiscal year. The operating margin was 4.4% for fiscal year 2011 compared to 4.1% in the prior fiscal year. Total net patient services revenues increased 4.5% in fiscal year 2011 compared to the prior fiscal year, while total operating expenses increased 3.0%.

e. SUMMARY OF OPERATIONS–ALEGENT

The combined operating results for Alegent for fiscal year 2011 improved from the results achieved in the prior fiscal year. In December 2010, Alegent recognized a gain on sale of $18.7 million as a result of the sale of a spine medical practice positively impacting the overall fiscal year 2011 results. The operating margin was 2.3% for fiscal year 2011 compared to a negative (1.4)% in the prior fiscal year. Total net patient services revenues decreased 1.3% in fiscal year 2011 compared to the prior fiscal year, while total operating expenses decreased 3.2%.

f. SUMMARY OF BALANCE SHEET–CHI REPORTING GROUP

Total combined assets increased 8.5% ($1.2 billion) to $15 billion at June 30, 2011 from June 30,

2010. Total investments and assets limited as to use increased 14.0% ($812.6 million) to $6.6 billion at June 30, 2011 from June 30, 2010. Strong investment performance during fiscal year 2011 was the primary factor contributing to the increase. Total assets for CHI, Bethesda, and Alegent represented approximately 89.0%, 4.7%, and 6.3%, respectively of the CHI Reporting Group at June 30, 2011.

Days of total cash increased to 254 days at June 30, 2011 from 237 at June 30, 2010. The primary factors contributing to the increase in days of cash were investment income and income from operations. Partially offsetting these increases were decreases resulting from capital additions during the fiscal year and increased in net working capital.

Net patient accounts receivable increased by 0.8% ($9.4 million) from June 30, 2010 to June 30, 2011. Days in accounts receivable decreased to 46.1 days at June 30, 2011 compared to 48.4 days at June 30, 2010.

The current ratio was 1.1 at both June 30, 2011 and June 30, 2010. The current ratio is impacted by $840 million of Commercial Paper Notes and the current portion of outstanding debt as well as $163.4 million of VRDBs with self liquidity classified as current. The debt-to-capitalization ratio improved to 33.4% at June 30, 2011 from 39.3% at June 30, 2010, driven by the 26.2% increase in unrestricted net assets at June 30, 2011 from fiscal year 2011 income from operations, investment income and the impact of the decrease in the unfunded pension liability of $404.8 million.

At the June 30, 2011 measurement date, the projected benefit obligation in excess of the fair value of plan assets for all Plans (CHI, Dayton, and Cincinnati) was approximately $315.5 million at June 30, 2011 compared to $731.2 million at June 30, 2010. This decrease in unfunded pension liability resulted from several factors, but was most significantly impacted by investment performance during fiscal year 2011, as well as the change in actuarial losses and the increase in the discount rate from 5.24% at June 30, 2010 to 5.39% at June 30, 2011. The increase to net assets from the decrease in unfunded pension liability at June 30, 2011 was $404.8 million.

Total net assets increased by 25.8% ($1.7 billion) from June 30, 2010 to June 30, 2011, primarily the result of a $1.3 billion increase from fiscal year 2011 excess of revenues over expenses and the increase to net assets from the $404.8 million decrease in the unfunded pension liability at June 30, 2011.

g. SIGNIFICANT TRANSACTIONS

There were several significant transactions recorded in fiscal year 2011 as summarized below.

- ***Debt Conversion.*** In July 2010, the Corporation converted the interest rate mode on $120.3 million of VRDBs to Direct Purchase Bonds. These bonds were previously recorded on the balance sheet as VRDBs supported by CHI's self liquidity. The conversion was accomplished through a direct purchase by a commercial bank that will hold the bonds through the initial three-year index rate term. This transaction was accounted for as an extinguishment of debt. There was no gain or loss recorded on this transaction.

- ***Debt Issuance.*** In November 2010, CHI issued $116.8 million of Commercial Paper Notes, the proceeds of which were used to redeem $60 million of the outstanding Colorado Health Facilities Authority Variable Rate Revenue Bonds (Catholic Health Initiatives) Series 2008C-6 and $56.8 million of the outstanding Kentucky Economic Development Finance Authority Variable Rate Revenue Bonds (Catholic Health Initiatives) Series 2004D, all of which were Long-Term Rate Bonds and were subject to mandatory tender on November 10, 2010 (the end of the then current long-term interest rate period). CHI refinanced this interim taxable borrowing on a long-term basis with tax exempt bonds issued in November 2011.

- ***Consolidated Health Services.*** On October 1, 2010, CHI acquired Consolidated Health Services ("*CHS*"), headquartered near Cincinnati, Ohio, from Bethesda for a gross purchase price of $43.3 million. CHS is a home care service provider operating in 30 locations in Indiana, Kentucky and Ohio.

O. CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with GAAP requires that management make assumptions, estimates and judgments affecting the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. CHI management considers critical accounting policies to be those that require the more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient service revenues, which includes contractual allowances, bad debt and charity care reserves, and cost report settlements; impairment of long-lived assets; accounting for expenses in connection with restructuring activities; provisions for bad debts; valuations of investments; and reserves for losses and expenses related to health care professional and general liability risks. In making such judgments and estimates, management relies on historical experience and on other assumptions believed to be reasonable under the circumstances. A description of CHI's critical accounting policies can be found in the notes to the audited financial statements in Appendix B. Actual results could differ materially from the estimates.

PART V
GOVERNANCE

A. CATHOLIC HEALTH INITIATIVES

Participating Congregations. There are twelve Participating Congregations of CHI. CHI honors the traditions and services established by the foundresses of these congregations and continued by their participation. The Participating Congregations are Benedictine Sisters of Mother of God Monastery, Watertown, South Dakota; Congregation of the Dominican Sisters of St. Catherine of Siena of Taos, New Mexico; Franciscan Sisters of Little Falls, Minnesota; Dominican Sisters of Peace, Columbus, Ohio; Sisters of Charity of Cincinnati, Ohio; Sisters of Mercy, West Midwest Community, Omaha, Nebraska; Sisters of St. Francis of Philadelphia, Pennsylvania; Sisters of Presentation of the Blessed Virgin Mary of Fargo, North Dakota; The Congregation of the Sisters of Charity of Nazareth, Kentucky; Sisters of St. Francis of the Immaculate Heart of Mary of Hankinson, North Dakota; Sisters of the Holy Family of Nazareth, Des Plaines, Illinois; and Sisters of St. Francis of Colorado Springs, Colorado.

All rights of the Participating Congregations as stated in the Corporation Bylaws are exercised through a representative appointed by each Participating Congregation. Such rights include (1) approving any substantial change in the mission or philosophical direction of CHI; (2) approving amendments to the Corporation's articles of incorporation or bylaws affecting any provision governing the qualification, rights or responsibilities of the Participating Congregations; (3) selecting and removing without cause a person to represent the Participating Congregation in exercising the rights and duties as described in the Corporation's Bylaws; (4) participating in the distribution of assets upon the dissolution of the Corporation, in accordance with the Corporation's Bylaws; (5) participating in organizational advocacy efforts; (6) encouraging members of the Participating Congregations to participate in the ministries sponsored by the Corporation; and (7) participating through their representatives in meetings held twice a year with the Board of Stewardship Trustees.

Board of Stewardship Trustees. The Corporation's Bylaws provide for the governance of the Corporation by a Board of Stewardship Trustees of at least nine and no more than twenty-one appointed Trustees one of which is an ex officio Trustee with voting powers. All Trustees serve regular staggered terms of three years. The Board of Stewardship Trustees has the power and the authority to supervise, control, direct and manage the property, affairs, and activities of the Corporation, to determine the policies of the

Corporation, to do or cause to be done any and all things for and on behalf of the Corporation, to exercise or cause to be exercised any or all of its powers, privileges, or franchises, and to seek the effectuation of CHI's objectives and purposes.

The Board of Stewardship Trustees currently consists of twelve elected Trustees plus the ex officio Trustee and meets in person four times a year. The President and Chief Executive Officer of the Corporation serves as the ex officio Trustee and is able to vote. The table below lists the current Trustees, their professional affiliations and the expiration of their terms in office (there are currently four vacancies on the Board of Stewardship Trustees).

Board of Stewardship Trustees

Name	Professional Affiliation	Term Expires June 30
Maureen Comer, OP	Chief Executive Officer Lourdes Campus	2015
Antoinette Hardy-Waller	Founder/Past President Care Collaborative Home Health Services, Inc	2015
Phyllis Hughes, RSM, DrPH	Sisters of Mercy of the Americas, West Midwest Community	2013
Andrea J. Lee, IHM	President St. Catherine University	2014
David R. Lincoln	President & Chief Executive Officer Covenant Health Systems	2013
Kevin E. Lofton*, FACHE	President & Chief Executive Officer Catholic Health Initiatives	N/A
Christopher Lowney	Self-employed; Public Speaker/Author	2015
Eleanor Martin, SCN, Esq.	Sister of Charity of Nazareth Weymouth, MA	2013
Mary Margaret Mooney, PBVM, PhD	President, Sisters of the Presentation of the Blessed Virgin Mary	2013
Mary Jo Potter	Managing Partner Highperlink	2014
Patricia Smith, OSF, JCD	Assistant Professor Neumann University	2015
Robert Smoldt	Chief Administrative Officer Emeritus Executive Director of Mayo Clinic Health Policy Center	2013
Martha Walsh, SC	Administrative Director Seton Enablement Fund Sisters of Charity of Cincinnati	2014

*Ex-officio member of the Board

There are currently eight committees of the Board of Stewardship Trustees, the Executive Committee, the Sponsorship and Governance Committee, the Finance Committee, the Investment Committee, the Human Resources Committee, the Quality and Safety Committee, the Strategic Planning Committee and the Audit and Compliance Committee.

B. GOVERNANCE OF PARTICIPANTS AND RELATIONSHIP WITH DESIGNATED AFFILIATE

Governance of Participants. Each Participant is governed by a Board of Directors, subject to the powers reserved to its corporate member. The corporate member or sole shareholder of each of the Participants (other than Centura Health and certain Participants that are parties to JOAs, as described immediately below) is the Corporation or a local "*parent organization,*" the sole corporate member or sole shareholder of which is the Corporation. The Corporation as sole corporate member has the right to appoint and remove Participant board members, except as otherwise described herein.

Relationship with Designated Affiliates. The Corporation has executed agreements with both of its Designated Affiliates: Bethesda and Alegent. The agreements require the Designated Affiliate to comply with either the provisions of the Capital Obligation Document that may be applicable to it or with particular covenants included in the agreements that reflect the obligations included in the Capital Obligation Document. The Corporation is not the corporate member of the Designated Affiliates.

Bethesda Designated Affiliate Agreement. Bethesda and its voting member, Bethesda, Inc., are parties to a Network Affiliation Agreement with the Corporation and The Good Samaritan Hospital of Cincinnati, Ohio, an affiliate of the Corporation and a Participant. Bethesda is an Ohio nonprofit corporation that owns and operates an acute care facility in the metropolitan Cincinnati area. Bethesda (but none of its affiliates, including Bethesda, Inc.) is a Designated Affiliate and a member of the CHI Credit Group, pursuant to an agreement (the "*Bethesda Designated Affiliate Agreement*") between Bethesda and the Corporation. As a Designated Affiliate, the Corporation does not have corporate control over Bethesda and Bethesda's financial results are not included in the consolidated financial statements of the Corporation under GAAP. However, pursuant to the Network Affiliation Agreement, the Corporation has the right to nominate six members of Bethesda's 13-member Board of Trustees (subject to approval of those nominees by Bethesda, Inc.) and has the right to approve the appointment of Bethesda's CEO, who is also a Board member. The Bethesda Designated Affiliate Agreement provides that Bethesda will transfer to the Corporation, upon request of the Corporation, any amounts the Corporation determines are necessary for the Corporation to make Required Payments under the Capital Obligation Document. Pursuant to the Bethesda Designated Affiliate Agreement, the Corporation has loaned funds to Bethesda to finance the construction of certain facilities.

Alegent Financing Agreement. As previously described, Alegent and Immanuel are parties to a JOA with the Corporation and Alegent Creighton Health Bergan Mercy Health System ("*Bergan*"). Bergan is an affiliate of the Corporation and a Participant. Pursuant to an agreement among the Corporation, Alegent, Immanuel and Bergan (the "*Alegent Financing Agreement*"), Alegent Creighton Health and Immanuel Medical Center became members of the CHI Credit Group as Designated Affiliates. As Designated Affiliates, the Corporation does not have corporate control over Alegent Creighton Health or Immanuel Medical Center and their financial statements are not included in the consolidated financial statements of the Corporation under GAAP. The Alegent Financing Agreement provides that Alegent Creighton Health and Immanuel Medical Center will transfer to the Corporation, upon request of the Corporation, amounts the Corporation determines are necessary for the Corporation to make Required Payments under the Capital Obligation Document, subject to the condition that the Corporation cannot require payments in amounts that are disproportionate to amounts required from Participants and other Designated Affiliates and further subject to the condition that the amount that Alegent Creighton Health and Immanuel Medical Center are obligated to transfer to the Corporation cannot exceed the indebtedness of Alegent Creighton Health and Immanuel Medical Center to the Corporation. The Alegent Financing Agreement provides that the obligations of Alegent Creighton Health and Immanuel Medical Center as members of the CHI Credit Group will be governed by the Alegent Financing Agreement and not the Capital Obligation Document. Pursuant to the Capital Obligation Document, the Corporation is required to cause the Designated Affiliates to take certain actions or refrain from taking certain other actions. These actions have been included as covenants in the Alegent Financing Agreement. The Alegent Financing Agreement does not, however, include an obligation to comply with terms and conditions that may be included in amendments to the Capital Obligation Document that would otherwise apply to Designated Affiliates.

Pursuant to the Alegent Financing Agreement, the Corporation loaned funds to Alegent Creighton Health, Immanuel Medical Center and Bergan that were used to defease then existing indebtedness of Immanuel and to finance the construction of certain facilities. Alegent Creighton Health, Immanuel Medical Center and Bergan executed and delivered promissory notes to the Corporation to evidence these loans. If Alegent Creighton Health, Immanuel Medical Center or Bergan default in their obligations to repay the loans or otherwise default in their performance under the Alegent Financing Agreement, the Corporation may exercise any of the remedies included in the Alegent Financing Agreement including, in certain circumstances, the right to replace members of their governing bodies.

As discussed in more detail in Part IV, Section B above, CHI and Immanuel are negotiating the termination of Immanuel's contractual rights and responsibilities under the JOA, subject to the satisfaction of certain conditions. If the transaction is completed as planned, the Corporation will become the sole member of Alegent Creighton Health, and the results of operations of Alegent Creighton Health and its subsidiaries (including Immanuel Medical Center) will thereafter be included in the consolidated financial statements of the Corporation under GAAP. The Corporation expects that the Alegent Financing Agreement will be modified or terminated by the end of the fiscal year ending June 30, 2013 if the transaction is completed as planned.

Certain Relationship and Control Mechanisms within the Corporation. The Corporation has the right, directly or indirectly, to appoint and remove a majority of the Board of Directors of each Participant, except for certain Participants affiliated with certain JOAs. In addition, the bylaws of substantially all nonprofit Participants which own and operate a substantial portion of the property of the CHI Credit Group and which constitute a substantial portion of the revenues of the CHI Credit Group permit the Corporation to require such Participants to transfer assets to the Corporation to the extent necessary to accomplish CHI's goals and objectives. Furthermore, the bylaws of such Participants permit the Corporation to provide for the payment of all indebtedness of the CHI Credit Group in furtherance of CHI's goals and objectives, including indebtedness secured by the Capital Obligation Document. The Corporation's Board of Stewardship Trustees also maintains other powers over the Participants including approval of operating and capital budgets.

Joint Operating Agreements and Joint Ventures. As discussed above, the Corporation is a party to several joint ventures and JOAs. The JOAs create corporate entities or operating companies to operate health care facilities within a system or network, including health care facilities owned by members of the CHI Credit Group. The Corporation shares certain reserved powers over those corporations or operating companies with the other health system or hospital corporation that is a party to the related joint operating agreement. Each JOA may contain limitations on the ability of the members of the CHI Credit Group to transfer property to others, including transfers to CHI and to the other party to the agreement. Such limitations may limit the ability of the applicable CHI Credit Group member to transfer property to CHI if so requested by CHI pursuant to the Capital Obligation Document.

The results of operations of certain of the networks created pursuant to the related JOAs and the effectiveness of the objectives, control mechanisms and operational requirements and limitations of the related JOAs are reviewed periodically by the Corporation and the member of the CHI Credit Group that is a party thereto, as well as by the other party or parties to the JOA.

Part VI
CHI Management

CHI has two levels of management, management at the MBO level and management at the national office level. CHI operations are overseen by two Executive Vice Presidents (chief operating officer and chief financial officer) and key executives including senior leaders for mission, strategy, clinical services, physician engagement, legal services and human resources. CHI is organized in five geographic divisions and one national service line division, each led by a senior vice president. CHI leverages enterprise expertise in areas such as mission, human resources, communications, finance, legal services, clinical effectiveness, supply chain, information technology, clinical effectiveness, insurance, risk management, business development, and strategy implementation. Several functions have been nationalized including information technology, legal services, clinical engineering and compliance. Day-to-day operations of the local MBOs is the responsibility of a local executive who reports to the geographic division Senior Vice President. CHI continues to evolve its operating model to include clinical leaders as we move from a hospital-centric organization to one that provides a full continuum of care in support of the creation of healthier communities.

A. LIST OF KEY EMPLOYEES

CHI has strong, experienced leadership teams with a solid understanding of the formation and ongoing management of partnership relationships. Short biographies of key employees are discussed below.

Kevin E. Lofton, FACHE, President and Chief Executive Officer (age 58). Mr. Lofton joined the Corporation in 1998 and has served in his current position since 2003. Prior to that time, he served as Executive Vice President and Chief Operating Officer of the Corporation from 1999 and as the Corporation President responsible for MBOs in seven states from 1998 through 1999. Before joining the Corporation in February 1998, Mr. Lofton was the Chief Executive Officer of the University of Alabama Hospital in Birmingham. In previous positions, Mr. Lofton served as the Chief Executive Officer of Howard University Hospital in Washington, D.C., and Chief Operating Officer at University Medical Center in Jacksonville, Florida. Mr. Lofton served as the 2007 Chairman of the Board of the American Hospital Association. Mr. Lofton received a bachelor's degree in management from Boston University and a master of health administration degree from Georgia State University.

Michael T. Rowan, Executive Vice President and Chief Operating Officer (age 55). Prior to assuming his current position in March 2004, Mr. Rowan served as the executive vice president and Chief Operating Officer of St. John Health, a multi-hospital integrated delivery system in Southeast Michigan. Prior to joining St. John Health, Mr. Rowan was the President and Chief Executive Officer of the Humility of Mary Health Care Corporation, based in Youngstown, Ohio. Mr. Rowan earned his master's degree in Health Administration from the University of Michigan and his bachelor's degree from Miami University.

J. Dean Swindle, Executive Vice President, Business Services and Chief Financial Officer (age 52). Mr. Swindle joined the Corporation in May 2010. Mr. Swindle has overall responsibility for financial strategy and planning, and corporate business services, including revenue cycle, supply chain, enterprise support centers, treasury services and payor strategy and operations. Prior to joining the Corporation, Mr. Swindle served as Senior Vice President of Finance, Executive Vice President and Chief Financial Officer and most recently as President, Ambulatory Services and Chief Financial Officer with Novant Health System, Winston-Salem, North Carolina. Mr. Swindle has also served as Vice President, Financial Services, at General Health System in Baton Rouge, Louisiana. He began his career with KPMG LLP in Jackson, Mississippi. Mr. Swindle earned a master of business administration from Duke University Fuqua School of Business in Durham, North Carolina, and a bachelor of business administration degree from Millsaps College, Jackson, Mississippi. He is a member of the

Healthcare Financial Management Association and the American Institute of Certified Public Accountants.

John F. DiCola, Senior Vice President, Strategy and Business Development (age 61). Mr. DiCola has held his current position since 1997. His responsibilities include overseeing CHI's strategic plan, leading CHI's growth strategies and partnering efforts at national and market levels and managing CHI's strategic planning process. Mr. DiCola also has responsibility for CHI's research and development initiative and its national foundation. He led strategic planning and corporate development efforts for the Sisters of Charity Health Care Systems in Cincinnati and also served as a Senior Business and Strategy Adviser with Ernst and Whinney, a national health care consulting firm. Mr. DiCola has an undergraduate degree from the University of Notre Dame and a master's degree in health policy and administration from Indiana University. He has been in the health care industry for more than 30 years.

Reverend Thomas R. Kopfensteiner, Senior Vice President of Mission (age 58). Father Kopfensteiner is Senior Vice President of Mission for the Corporation. Prior to joining the Corporation, he was most recently Associate Professor of Moral Theology and Chair of the Department of Theology at Fordham University, Bronx, NY. Fr. Kopfensteiner has written extensively in the area of moral theology and health care ethics. He has served as a board member and ethical consultant for several health care organizations. Fr. Kopfensteiner holds a doctorate in sacred theology from Gregorian University in Rome.

Mitch H. Melfi, Esq., Senior Vice President, Legal Services and General Counsel (age 55). Prior to assuming his current position, Mr. Melfi served as Senior Vice President, Chief Risk Officer for the Corporation and as President and CEO of FIIL. He also served as Vice President for Risk/Claim Management and Associate General Counsel for the Sisters of Charity Health Care Systems, Inc. in Cincinnati, Ohio until it merged with two other Catholic health systems to form CHI. Mr. Melfi has spoken on various legal and risk management topics to physicians, nurses, risk managers and other allied health care professionals, and has provided consulting services in various areas of risk management and loss prevention. He taught at the College of Medicine at The Ohio State University and served as a guest lecturer at Capital University Law School. Mr. Melfi received his B.A. from The Ohio State University and his J.D. from Capital University Law School in Columbus.

Stephen Moore, M.D., Senior Vice President and Chief Medical Officer (age 58). Dr. Stephen Moore is responsible for facilitating achievement of CHI's strategic 2020 vision of top performance in the areas of quality, patient safety, clinical evidence, and clinical efficiency. Dr. Moore joined the Corporation from Inova Health System, a six hospital system in Northern Virginia where he served as Executive Vice President, Clinical Quality and Patient Safety. In this position, he was responsible for operational areas of pharmacy, long-term care, assisted living facilities, home health as well as quality, patient and employee safety, case management, infection control, clinical efficiency, and hospice/end of life care. Dr. Moore is Board Certified in Family Medicine. Dr. Moore graduated from Tufts University School of Medicine and University of Rochester Family Medicine Residency program. Dr. Moore has more than 14 years of full-time practice experience, spending six of those years in rural community health centers as a rural emergency room physician and nine years in private practice.

Kathleen Sanford, DBA, RN, CENP, FACHE, Senior Vice President and Chief Nursing Officer (age 60). Kathleen Sanford, DBA, RN, CENP, FACHE, Senior Vice President and Chief Nursing Officer (age 60). Kathleen Sanford joined the Corporation in 2006. She has over 38 years' experience in health care, including staff nursing, middle management, chief nurse executive, hospital administrator, and strategy executive roles. A former Army Nurse, she retired as Chief Nurse of the Washington Army National Guard. She served as the 2006 President of the American Organization of Nurse Executives and in that role also participated in the Tri-Council for Nursing. Her current appointments include: member, Centura Health Corporation Board of Trustees and editor-in-chief for Nursing Administration Quarterly (NAQ). She writes a regular column for the Healthcare Financial Management Association

(HFMA) and frequently speaks at national conferences on clinical and financial subjects. Her education includes a bachelor's degree in nursing from the University of Maryland/Walter Reed Army Institute of Nursing, an M.A. in Human Resources Management from Pepperdine University, an M.B.A. from Pacific Lutheran University, and a Doctorate in Business from Nova Southeastern University. She is a Fellow in the Wharton School of Business Nursing Administration Program and a Fellow of the American College of Healthcare Executives.

Patricia G. Webb, Senior Vice President and Chief Human Resources Officer (age 59). Ms. Webb joined Catholic Health Initiatives in January 2011. She has more than 25 years of experience in leading operations and human resource functions in non-union, union and multi-facility health care organizations. Prior to joining the Corporation, Ms. Webb was Senior Vice President and Chief Human Resources Officer at Umass Memorial Health Care, Worcester, MA. She has also served as human resources executive at Boston Medical Center, Boston, MA; Wake Medical Center, Raleigh, NC; and University Medical Center, Jacksonville, FL. Ms. Webb has a master's degree in business and human resources management from the University of North Florida, Jacksonville; and a bachelor's degree in management and marketing from Florida A&M University, Tallahassee. She is a Fellow in the American College of Healthcare Executives and participates frequently on national forums and panels.

T. Clifford Deveny, M.D., Senior Vice President, Physician Services and Physician Practice Management (age 52). Dr. Deveny joined the corporation in May 2011. Dr Deveny provides leadership and direction in CHI's system wide effort to expand and integrate its employed physician enterprise, increasing the scope and number of practices across the national system. Dr. Deveny formerly oversaw the operations of Summa Physicians, Inc. for Summa Health System, Akron, Ohio, a nonprofit, multi-specialty physician group, managing more than a $140 million budget that included seven acute care hospitals, a network of outpatient and primary care clinics and a health care plan, and also directed all physician alignment activities including four physician/hospital joint ventures. Dr. Deveny earned his medical degree from the University of Toledo Medical Center, Toledo, Ohio, and is board certified in obstetrics and gynecology. He graduated from Denison University, Granville, Ohio, with a bachelor's degree in chemistry. He is a member of several professional organizations, including the American College of Obstetricians and Gynecologists.

PART VII
LEGAL PROCEEDINGS

A. PENDING LITIGATION/ REGULATORY MATTERS

The members of the CHI Credit Group, like all major health care systems, periodically may be subject to investigations or audits by federal, state and local agencies involving compliance with a variety of laws and regulations. These investigations seek to determine compliance with, among other things, laws and regulations relating to Medicare and Medicaid reimbursement, including billing practices for certain services. Violation of such laws could result in substantial monetary fines, civil and/or criminal penalties and exclusion from participation in Medicare, Medicaid or similar programs.

Nationwide Review of Certain Hospital Charges. The Civil Division of the Department of Justice ("*DOJ*") contacted CHI in 2010 in connection with its nationwide review of whether, in certain cases, hospital charges to the federal government relating to implantable cardio-defibrillators ("*ICDs*") met the Centers for Medicare & Medicaid services criteria. In connection with this nationwide review, the DOJ indicated that it intends to review certain ICD billing and medical records at certain of CHI's current and former hospitals for the period from October 2003 to the present. The review could potentially give rise to claims against CHI under the federal False Claims Act or other statutes, regulations or laws. On August 30, 2012, the DOJ released a resolution model with guidance concerning the review of ICD claims and a proposed settlement methodology for systems and hospitals that are willing to conduct a self review of the identified claims. CHI is presently studying the government's proposed resolution model. At this time, CHI management cannot predict what effect, if any, this review or any resulting claims could have on the CHI Credit Group.

St. Joseph Medical Center, Towson, Maryland. St. Joseph Medical Center ("*St. Joseph – Towson*") signed a settlement agreement with the federal government in 2010 and paid $22 million to the federal government to resolve a civil investigation stemming from a qui tam lawsuit involving its past financial relationship with Midatlantic Cardiovascular Associates and certain stent procedures performed by Dr. Mark Midei while employed by St. Joseph - Towson. St. Joseph - Towson reached the agreement without admitting liability to avoid the expense and uncertainty of litigation and to allow it to move forward, and entered into a Corporate Integrity Agreement with the Office of Inspector General ("*OIG*") of the U.S. Department of Health and Human Services to ensure that all St. Joseph - Towson conduct and activity is in compliance with all regulations governing health care. The settlement agreement does not include resolution of certain employment related claims filed by one of the relators as part of the qui tam lawsuit, including a federal False Claims Act retaliation claim and intentional interference with economic relations. These claims are presently subject to arbitration between the parties, and St. Joseph - Towson intends to vigorously defend these employment related claims.

In addition, a number of patients have either filed or threatened to file claims against St. Joseph - Towson concerning the placement of stents by Dr. Midei, including a purported class action lawsuit that has been filed with the Health Care Alternative Dispute Resolution Office of Maryland. St. Joseph - Towson is working with a variety of regulators, including the Maryland Office of Health Care Quality, the Maryland Board of Physicians and the Joint Commission, among others, concerning the alleged unnecessary cardiac procedures.

In November 2010, Dr. Midei filed a lawsuit against St. Joseph - Towson and the Corporation alleging intentional infliction of emotional distress, false statements, invasion of privacy, and various other common law theories of recovery. Dr. Midei sought monetary damages in an amount of $60 million. In April 2012, the Baltimore County Circuit Court granted St. Joseph – Towson's motion to dismiss this lawsuit, and Dr. Midei is appealing that dismissal to the Court of Special Appeals of Maryland. St. Joseph - Towson intends to vigorously defend the lower court's judgment.

On a separate matter, St. Joseph - Towson conducted an internal audit to review payments relating to certain inpatient admissions of two days or less for beneficiaries of federal health care programs. As a result of that review, in June 2010 St. Joseph - Towson disclosed to the OIG and the U.S. Attorney's Office for the District of Maryland potential overpayments made by the federal government to St. Joseph - Towson. St. Joseph - Towson has retained a consultant to conduct further audit work to resolve these issues.

CHI management believes that adequate reserves have been established and that the outcome of any current investigations and collateral consequences will not have a material effect on the financial position or results of operations of the CHI Credit Group.

Memorial Health Care System. In 2010, the U.S. Department of Justice and the U.S. Attorney's Office for the Eastern District of Tennessee (collectively "*DOJ*") notified Memorial Health Care System ("*MHCS*") that it had launched a civil investigation of whether numerous space leases between MHCS and physicians violated the Stark law and the civil False Claims Act. This investigation was prompted by a sealed qui tam lawsuit that was filed in January 2009. After reviewing a broad array of leases and financial information, the DOJ declined to intervene in the civil qui tam action. The relator has not served MHCS with the complaint and it is uncertain whether the relator will pursue this matter without government intervention. While no assurance can be given that the outcome of the qui tam lawsuit, if pursued by the relator, will be favorable, CHI management believes that adequate reserves have been established and that the outcome of such litigation, if pursued, will not have a material adverse effect on the financial position or results of operations of the CHI Credit Group.

After an internal review of certain physician lease issues, MHCS made a voluntary disclosure of three physician lease issues that may not have met the specific requirements of the Stark law. In August 2012, the DOJ entered into a civil settlement agreement with MHCS, and MHCS paid approximately $1.3 million to the federal government to resolve any potential claims under the False Claims Act, the Civil Monetary Penalties Law, and common law theories concerning these lease issues.

St. Joseph London. St. Joseph Health System (now part of KentuckyOne Health) voluntarily disclosed to the U.S Attorney's Office for the Eastern District of Kentucky the results of an internal investigation concerning cardiac stent cases performed at St. Joseph London by a single, non-employed interventional cardiologist. In response, the U.S. Attorney's Office is conducting an investigation related to the medical necessity of cardiac interventional procedures performed at St. Joseph London and the financial relationship between St. Joseph Health System and the physician and other members of his former medical group. KentuckyOne Health is cooperating in this investigation and is currently providing documents and information to the U.S. Attorney's Office pursuant to subpoena and a Civil Investigative Demand.

CHI management believes that adequate reserves have been established and that the outcome of any current investigations and collateral consequences will not have a material effect on the financial position or results of operations of the CHI Credit Group.

B. PROFESSIONAL LIABILITY AND OTHER INSURANCE COVERAGE

Professional liability, employment practices liability and general liability insurance for CHI are underwritten through First Initiatives Insurance Ltd. ("*FIIL*"), a wholly-owned, captive insurance company established by CHI on January 1, 1997. FIIL provides professional liability coverage of $8 million per claim, either on a direct written basis or through a reinsurance relationship with commercial carriers. Reserves for losses and loss adjustment expenses, including self-insured reserves and claims, are determined based on the expertise of independent actuaries. Through FIIL, CHI purchases excess liability insurance from commercial insurance carriers, which, in fiscal year 2012, is $200 million per claim. Additionally, CHI purchases $75 million aggregate protection on hospital professional liability and general liability claims within its retention level, subject to a $175,000 continuing per claim limit.

Workers' compensation coverage is underwritten primarily through FIIL, either on a direct written basis or through reinsurance relationships with commercial carriers. Unrelated commercial insurance carriers insure or reinsure losses in excess of $500,000 per claim.

Commercial deductible coverage such as property, automobile, directors and officers are underwritten primarily through FIIL on a direct written basis. Unrelated commercial insurance carriers insure losses in excess of the various deductible levels carried by FIIL.

C. COMPLIANCE

CHI has implemented a national integrated and risk-based compliance model, anchored by the mission, vision and core values of the organization. The Corporate Responsibility Program ("*CRP*") provides leadership, oversight and resources for the development, implementation and maintenance of a standard, mission-based corporate responsibility program, which centralizes all key compliance areas across CHI. The Corporation's goal for this national infrastructure is to provide consistent and effective compliance programs for all CHI facilities, aligning system resources and focusing on specialized expertise in highly technical areas.

The CRP Program includes:

- Providing risk specific and technical education to promote consistency, standardization, practice sharing and risk mitigation within CHI.

- Executing an annual risk assessment process focused on proactive identification and mitigation of compliance risk.
- Serving as compliance subject matter experts to include, but not limited to, the following compliance areas: general, physician, laboratory, clinical research, coding, use of data analytics in monitoring, senior services, homecare, hospice, DME and home infusion.
- Implementing an objective, system-wide CRP process to measure CRP effectiveness in support of the OIG and Federal Sentencing guidelines (which is further supported by CRP dashboards for reporting to local and national governance).
- Overseeing the development, implementation and maintenance of an organization-wide information privacy and security program.

Exhibit A

List of Certain Facilities of CHI and Designated Affiliates

MBO	Facilities[1]	Locations	Acute Care Facility Licensed Beds	LTC Licensed Beds
Arkansas				
St. Vincent Health System				
	St. Vincent Infirmary Medical Center	Little Rock	615	—
	St. Vincent Morrilton (CAH)	Morrilton	25	—
	St. Vincent Medical Center – North	Sherwood	69	—
	St. Vincent Rehabilitation Hospital	Sherwood	60	—
Colorado				
Centura Health[2]				
	Progressive Care Center	Canon City	—	108
	St. Thomas More Hospital	Canon City	55	—
	Medalion Retirement Center	Colorado Springs	—	60
	Namaste Alzheimer's Center	Colorado Springs	—	64
	Penrose Hospital	Colorado Springs	364	—
	Penrose – St. Francis Medical Center	Colorado Springs	158	—
	The Gardens at St. Elizabeth	Denver	—	14
	Mercy Regional Medical Center	Durango	82	—
	St. Anthony Summit Medical Center	Frisco	35	—
	Ortho-Colorado Hospital	Lakewood	48	—
	St. Anthony Hospital	Lakewood	222	—
	St. Mary-Corwin Medical Center	Pueblo	408	—
	Villa Pueblo	Pueblo	—	60
	The Villas at Sunny Acres	Thornton	—	91
	St. Anthony North Hospital	Westminster	196	—
Iowa and Nebraska				
Mercy Health Network (Iowa)[3]				
	Mercy Medical Center – Centerville (CAH)	Centerville	25	20
	Mercy Franklin Center Mercy Medical Center	Des Moines	656	—
	Bishop Drumm Retirement Center	Johnston	—	150
	Mercy Medical Center – West Lakes	West Des Moines	146	—

(1) (CAH) denotes a critical access hospital.
(2) These facilities operated under the Joint Operating Agreement with Centura Health.
(3) These facilities operated under the Joint Operating Agreements with Trinity Health.

MBO	Facilities[1]	Locations	Acute Care Facility Licensed Beds	LTC Licensed Beds
Alegent Creighton Health[4]				
	Alegent Health – Mercy Hospital (CAH)	Corning (Iowa)	22	—
	Alegent Health – Mercy Hospital	Council Bluffs (Iowa)	278	—
	Alegent – Community Memorial Hospital[5]	Missouri Valley (Iowa)	25	—
	Alegent Health - Bergan Mercy Medical Center including the Lasting Hope Recovery Center at Bergan Mercy	Omaha (Nebraska)	464	—
	Alegent Health - Immanuel Medical Center[4]	Omaha (Nebraska)	356	—
	Alegent Health - Lakeside Hospital[4]	Omaha (Nebraska)	157	—
	Alegent Health - Midlands Hospital[4]	Papillion (Nebraska)	121	—
	Alegent Health - Memorial Hospital[4]	Plainview (Nebraska)	16	—
	Alegent Health - Memorial Hospital[4]	Schuyler (Nebraska)	25	—
CHI Nebraska				
	Good Samaritan Hospital	Kearney	226	22
	Richard H. Young Hospital	Kearney	61	—
	Nebraska Heart Hospital	Lincoln	63	—
	Saint Elizabeth Regional Medical Center	Lincoln	260	—
	Saint Francis Medical Center	Grand Island	159	36
	St. Mary's Community Hospital (CAH)	Nebraska City	18	—
Kansas				
CHI Kansas				
	St. Catherine Hospital	Garden City	132	—
Kentucky				
KentuckyOne Health, Inc.				
Saint Joseph Health System				
	Saint Joseph – Berea (CAH)	Berea	25	—
	Saint Joseph Hospital	Lexington	418	—
	Saint Joseph East, including Women's Hospital at Saint Joseph East	Lexington	187	—
	Saint Joseph – London	London	120	—
	Saint Joseph – Martin (CAH)	Martin	25	—
	Saint Joseph – Mount Sterling	Mount Sterling	52	—
	Continuing Care Hospital	Lexington	45	—
	Flaget Memorial Hospital	Bardstown	40	12

(4) These facilities operated under the Joint Operating Agreement with Alegent Creighton Health.
(5) Operated by a Designated Affiliate under the Joint Operating Agreement with Alegent Creighton Health.

MBO	Facilities[1]	Locations	Acute Care Facility Licensed Beds	LTC Licensed Beds
Jewish Hospital & St. Mary's Healthcare				
	St. Mary & Elizabeth Hospital	Louisville	298	—
	Our Lady of Peace	Louisville	414	—
	Frazier Rehabilitation & Neuroscience Center	Louisville	135	—
	Jewish Hospital	Louisville	462	—
	Jewish Hospital Shelbyville	Shelbyville	70	—
Maryland				
	St. Joseph Medical Center[6]	Towson	263	—
Minnesota				
	Lakewood Health Center (CAH)	Baudette	15	44
	St. Joseph's Area Health Services (CAH)	Park Rapids	54	—
St. Francis Healthcare				
	St. Francis Medical Center (CAH)	Breckenridge	25	—
	St. Francis Home	Breckenridge	—	120
Unity Family Health Care				
	Albany Area Hospital & Medical Center (CAH)	Albany	17	—
	St. Camillus Place	Little Falls	—	14
	St. Gabriel's Hospital (CAH)	Little Falls	25	—
New Jersey				
Saint Clare's Health System[6]				
	Saint Clare's Hospital / Boonton Township	Boonton Township	104	—
	Saint Clare's Hospital / Denville	Denville	272	—
	Saint Francis Life Care Corporation	Denville	—	118
	Saint Clare's Hospital / Dover	Dover	60	—
	Saint Clare's Hospital / Sussex	Sussex	106	—
North Dakota				
	Carrington Health Center (CAH)	Carrington	25	—
	Mercy Hospital (CAH)	Devils Lake	25	—
	St. Joseph's Hospital & Health Care (CAH)	Dickinson	25	—
	Villa Nazareth	Fargo	—	86
	Lisbon Area Health Services (CAH)	Lisbon	25	—
	Oakes Community Hospital (CAH)	Oakes	20	—
	Mercy Hospital (CAH)	Valley City	25	—
	Mercy Medical Center (CAH)	Williston	25	—

(6) MBOs held for sale.

MBO	Facilities[1]	Locations	Acute Care Facility Licensed Beds	LTC Licensed Beds
Ohio				
	TriHealth: Good Samaritan Hospital[8]	Cincinnati	592	15
	Bethesda North Hospital[9]	Cincinnati	457	—
	Premier Health Partners: Good Samaritan Hospital, including the Dayton Health & Vascular Hospital at Good Samaritan[7]	Dayton	520	—
Oregon				
	St. Anthony Hospital (CAH)	Pendleton	49	—
Mercy Medical Center				
	Mercy Medical Center	Roseburg	174	—
Pennsylvania				
St. Joseph Regional Health Network				
	St. Joseph Medical Center	Reading	204	—
South Dakota				
St. Mary's Healthcare Center[6]				
	Gettysburg Medical Center (CAH)	Gettysburg	10	—
	Oahe Villa	Gettysburg	—	50
	St. Mary's Hospital (CAH)	Pierre	60	—
	Maryhouse Long–term Care Facility	Pierre	—	105
Tennessee				
Memorial Health Care System				
	Memorial Hospital	Chattanooga	336	—
	Memorial North Park Hospital	Hixson	69	—
Washington				
Franciscan Health System				
	St. Elizabeth Hospital (CAH)	Enumclaw	38	—
	St. Francis Hospital	Federal Way	124	—
	St. Anthony Hospital	Gig Harbor	80	—
	St. Clare Hospital	Lakewood	106	—
	St. Joseph Medical Center	Tacoma	366	—
Wisconsin				
	Franciscan Villa	South Milwaukee	—	150

(6) MBOs held for sale.
(7) Operated under a Joint Operating Agreement with Premier Health Partners.
(8) Operated under a Joint Operating Agreement with TriHealth.
(9) Operated under a Designated Affiliate under a Joint Operating Agreement with TriHealth.

APPENDIX B

AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011 OF CATHOLIC HEALTH INITIATIVES

[THIS PAGE INTENTIONALLY LEFT BLANK]

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Catholic Health Initiatives
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Catholic Health Initiatives
Consolidated Financial Statements
and Supplemental Information

Years Ended June 30, 2012 and 2011

Contents

Ernst & Young LLP
Suite 3300
370 17th Street
Denver, CO 80202

Tel: +1 720 931 4000
Fax: +1 720 931 4444
www.ey.com

Report of Independent Auditors

Board of Stewardship Trustees
Catholic Health Initiatives

We have audited the accompanying consolidated balance sheets of Catholic Health Initiatives (CHI) as of June 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of CHI's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Alegent Health-Bergan Mercy Health System, a wholly sponsored direct affiliate of CHI, which statements reflect total assets of $716 million and $708 million as of June 30, 2012 and 2011, respectively, and total revenues of $452 million and $466 million, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Alegent Health-Bergan Mercy Health System, is based solely on the report of the other auditors.

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. We were not engaged to perform an audit of CHI's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CHI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Catholic Health Initiatives at June 30, 2012 and 2011, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

September 18, 2012

1111-1309439

Catholic Health Initiatives
Consolidated Balance Sheets

	June 30 2012	June 30 2011
	(In Thousands)	
Assets		
Current assets:		
Cash and equivalents	**$ 403,972**	$ 449,674
Net patient accounts receivable, less allowances of $687,631 and $636,815 in 2012 and 2011, respectively	**1,353,928**	1,090,882
Other accounts receivable	**116,607**	105,361
Current portion of investments and assets limited as to use	**1,901**	19,554
Inventories	**185,571**	163,387
Assets held for sale	**474,990**	497,545
Prepaid and other	**87,179**	68,214
Total current assets	**2,624,148**	2,394,617
Investments and assets limited as to use:		
Internally designated for capital and other funds	**4,588,519**	4,617,181
Mission and Ministry Fund	**110,918**	117,832
Capital Resource Pool	**320,218**	268,690
Held by trustees	**228**	229
Held for insurance purposes	**745,127**	739,071
Restricted by donors	**171,123**	146,569
Total investments and assets limited as to use	**5,936,133**	5,889,572
Property and equipment, net	**5,347,475**	4,546,748
Deferred financing costs	**28,717**	23,699
Investments in unconsolidated organizations	**307,918**	343,640
Intangible assets and goodwill, net	**162,880**	55,617
Notes receivable and other	**605,113**	639,466
Total assets	**$ 15,012,384**	$ 13,893,359

Continued on following page

Catholic Health Initiatives
Consolidated Balance Sheets (continued)

	June 30 2012	June 30 2011
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Compensation and benefits	**$ 418,597**	$ 384,095
Third-party liabilities	**76,660**	62,034
Accounts payable and accrued expenses	**718,897**	585,750
Liabilities held for sale	**103,633**	104,611
Variable-rate debt with self liquidity	**321,455**	163,400
Commercial paper and current portion of debt	**643,083**	836,201
Total current liabilities	**2,282,325**	2,136,091
Pension liability	**892,820**	315,523
Self-insured reserves and claims	**513,584**	448,940
Other liabilities	**236,763**	215,231
Long-term debt	**3,778,709**	3,135,225
Total liabilities	**7,704,201**	6,251,010
Net assets:		
Net assets attributable to CHI	**6,922,466**	7,448,161
Net assets attributable to noncontrolling interests	**180,863**	8,967
Unrestricted	**7,103,329**	7,457,128
Temporarily restricted	**136,821**	122,795
Permanently restricted	**68,033**	62,426
Total net assets	**7,308,183**	7,642,349
Total liabilities and net assets	**$ 15,012,384**	$ 13,893,359

See accompanying notes.

Catholic Health Initiatives
Consolidated Statements of Operations

	Year Ended June 30	
	2012	2011
	(In Thousands)	
Revenues:		
Net patient services	**$ 9,223,859**	$ 8,316,852
Nonpatient:		
Donations	**27,968**	23,425
Changes in equity of unconsolidated organizations	**22,934**	33,835
Investment income used in operations	**37,169**	30,475
Other	**532,341**	431,863
Total nonpatient revenues	**620,412**	519,598
Total operating revenues	**9,844,271**	8,836,450
Expenses:		
Salaries and wages	**3,776,388**	3,339,440
Employee benefits	**749,055**	700,293
Purchased services, medical professional fees, consulting and legal	**925,427**	750,323
Supplies	**1,566,367**	1,431,037
Bad debts	**709,654**	691,218
Utilities	**120,205**	105,777
Rentals, leases, maintenance and insurance	**523,076**	462,786
Depreciation and amortization	**473,773**	434,652
Interest	**129,648**	117,179
Other	**511,125**	464,615
Total operating expenses before restructuring, impairment and other losses	**9,484,718**	8,497,320
Income from operations before restructuring, impairment and other losses	**359,553**	339,130
Restructuring, impairment and other losses	**47,735**	20,363
Income from operations	**311,818**	318,767
Nonoperating gains (losses):		
Investment income, net	**19,829**	803,554
Loss on defeasance of bonds	**(70,555)**	–
Realized and unrealized losses on interest rate swaps	**(153,411)**	(4,870)
Other nonoperating (losses) gains	**(12,215)**	16,462
Total nonoperating (losses) gains	**(216,352)**	815,146
Excess of revenues over expenses	**$ 95,466**	$ 1,133,913
Excess of revenues over expenses attributable to noncontrolling interest	**$ 537**	$ 3,298
Excess of revenues over expenses attributable to CHI	**$ 94,929**	$ 1,130,615

Community benefit provided to the poor and broader community and the unpaid cost of Medicare (unaudited) was $1.1 billion in each of 2012 and 2011 (see Note 2 of the accompanying notes).

Catholic Health Initiatives
Consolidated Statements of Changes in Net Assets
(In Thousands)

	Unrestricted Net Assets					
	Attributable to CHI	**Attributable to Noncontrolling Interests**	**Total**	**Temporarily Restricted Net Assets**	**Permanently Restricted Net Assets**	**Total Net Assets**
Balances, June 30, 2010	$ 5,875,377	$ 8,204	$ 5,883,581	$ 112,207	$ 53,408	$ 6,049,196
Excess of revenues over expenses	1,130,615	3,298	1,133,913	–	–	1,133,913
Net loss from discontinued operations	(13,231)	–	(13,231)	–	–	(13,231)
Decrease in pension liability	404,768	–	404,768	–	–	404,768
Temporarily and permanently restricted contributions	–	–	–	44,502	3,803	48,305
Net assets released from restriction for capital	26,270	–	26,270	(26,270)	–	–
Net assets released from restriction for operations	–	–	–	(13,868)	–	(13,868)
Investment income	–	–	–	7,718	1,737	9,455
Other changes in net assets	24,362	(2,535)	21,827	(1,494)	3,478	23,811
Net increase in net assets	1,572,784	763	1,573,547	10,588	9,018	1,593,153
Balances, June 30, 2011	7,448,161	8,967	7,457,128	122,795	62,426	7,642,349
Excess of revenues over expenses	**94,929**	**537**	**95,466**	**–**	**–**	**95,466**
Net loss from discontinued operations	**(45,177)**	**–**	**(45,177)**	**–**	**–**	**(45,177)**
Increase in pension liability	**(618,141)**	**(878)**	**(619,019)**	**–**	**–**	**(619,019)**
Temporarily and permanently restricted contributions	**–**	**–**	**–**	**39,117**	**(122)**	**38,995**
Net assets released from restriction for capital	**18,119**	**–**	**18,119**	**(18,119)**	**–**	**–**
Net assets released from restriction for operations	**–**	**–**	**–**	**(19,689)**	**–**	**(19,689)**
Investment income	**232**	**–**	**232**	**1,007**	**47**	**1,286**
KentuckyOne Health noncontrolling interest	**–**	**181,551**	**181,551**	**–**	**–**	**181,551**
Other changes in net assets	**24,343**	**(9,314)**	**15,029**	**11,710**	**5,682**	**32,421**
Net (decrease) increase in net assets	**(525,695)**	**171,896**	**(353,799)**	**14,026**	**5,607**	**(334,166)**
Balances, June 30, 2012	**$ 6,922,466**	**$ 180,863**	**$ 7,103,329**	**$ 136,821**	**$ 68,033**	**$ 7,308,183**

See accompanying notes.

Catholic Health Initiatives
Consolidated Statements of Cash Flows

	Year Ended June 30 2012	2011
	(In Thousands)	
Operating activities		
(Decrease) increase in net assets	**$ (334,166)**	$ 1,593,153
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**473,773**	434,652
Provision for bad debts	**709,654**	691,218
Changes in equity of unconsolidated organizations	**(22,934)**	(33,835)
Net gains on sales of facilities and investments in unconsolidated organizations	**(57,383)**	(3,540)
Noncash operating expenses related to restructuring, impairment and other losses	**16,024**	9,644
Loss on defeasance of bonds	**70,555**	–
Decrease (increase) in fair value of interest rate swaps	**121,949**	(26,876)
Increase (decrease) in unfunded pension liability	**601,990**	(404,768)
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	**(883,703)**	(710,994)
Other current assets	**(10,992)**	(20,318)
Current liabilities	**2,771**	(40,549)
Noncontrolling equity of acquisition of JHSMH	**(181,551)**	–
Other changes	**(75,749)**	21,452
Net cash provided by operating activities before net change in investments and assets limited as to use	**430,238**	1,509,239
Net decrease (increase) in investments and assets limited as to use	**286,773**	(729,424)
Net cash provided by operating activities	**717,011**	779,815
Investing activities		
Purchases of property, equipment and other capital assets	**(861,034)**	(761,713)
Purchase of CHS, net of cash acquired	**–**	(35,533)
Purchase of NHH, net of cash acquired	**(130,982)**	–
Purchase of JHSMH, net of cash acquired	**(28,685)**	–
Net cash proceeds from asset sales	**22,159**	4,992
Distributions from investments in unconsolidated organizations	**40,214**	44,748
Cash from net repayments (issuances) of notes receivable	**29,740**	(4,635)
Other changes	**21,373**	6,889
Net cash used in investing activities	**(907,215)**	(745,252)
Financing activities		
Proceeds from bank loan and issuance of long-term debt	**1,126,463**	276,598
Net costs associated with issuance of long-term debt	**(8,855)**	–
Repayment of long-term debt	**(973,106)**	(355,974)
Net cash provided by (used in) financing activities	**144,502**	(79,376)
Decrease in cash and equivalents	**(45,702)**	(44,813)
Cash and equivalents at beginning of year	**449,674**	494,487
Cash and equivalents at end of year	**$ 403,972**	$ 449,674
Supplemental disclosures of cash flow information		
Cash paid during the year for interest, including amounts capitalized	**$ 151,837**	$ 149,822

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

Catholic Health Initiatives (CHI), established in 1996, is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI sponsors market-based organizations (MBOs) and other facilities in 19 states, including 74 acute-care hospitals, of which 21 are designated as critical access hospitals by the Medicare program, two community health service organizations (CHSOs), two accredited nursing colleges, home health agencies, and 40 other sites including long-term care, assisted living and residential facilities. CHI also has an offshore captive insurance company, First Initiatives Insurance, Ltd. (FIIL).

The mission of CHI is to nurture the healing ministry of the Church, bringing it new life, energy and viability in the 21st century. CHI is committed to fidelity to the Gospel, with emphasis on human dignity and social justice in the creation of healthier communities. CHI is sponsored by a lay-religious partnership, calling on other Catholic sponsors and systems to unite to ensure the future of Catholic health care.

Principles of Consolidation

CHI consolidates all direct affiliates in which it has sole corporate membership or ownership (Direct Affiliates) and all entities in which it has greater than 50% equity interest with commensurate control. All significant intercompany accounts and transactions are eliminated in consolidation.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and equivalents, patient accounts receivable, notes receivable, accounts payable and long-term debt. The carrying amounts reported in the consolidated balance sheets for these items approximate fair value.

Cash and Equivalents

Cash and equivalents include all deposits with banks and investments in interest-bearing securities with maturity dates of 90 days or less from the date of purchase. In addition, cash and equivalents include deposits in short-term funds held by professional managers. The funds generally invest in high-quality, short-term debt securities, including U.S. government securities, securities issued by domestic and foreign banks, such as certificates of deposit and bankers'

1. Summary of Significant Accounting Policies (continued)

acceptances, repurchase agreements, asset-backed securities, high-grade commercial paper and corporate short-term obligations.

Net Patient Accounts Receivable and Net Patient Services Revenues

Net patient accounts receivable has been adjusted to the estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors.

The provision for bad debts is based upon management's assessment of historical and expected net collections, taking into consideration historical business and economic conditions, trends in health care coverage and other collection indicators. Management routinely assesses the adequacy of the allowances for uncollectible accounts based upon historical write-off experience by payor category. The results of these reviews are used to modify, as necessary, the provision for bad debts and to establish appropriate allowances for uncollectible net patient accounts receivable. After satisfaction of amounts due from insurance, CHI follows established guidelines for placing certain patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by each facility.

CHI records net patient services revenues in the period in which services are performed. CHI has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement and negotiated discounts from established rates and per diem payments.

Net patient services revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments due to future audits, reviews and investigations, and excluding estimated amounts considered uncollectible. The differences between the estimated and actual adjustments are recorded as part of net patient services revenues in future periods, as the amounts become known, or as years are no longer subject to such audits, reviews and investigations.

Investments and Assets Limited as to Use

Investments and assets limited as to use include assets set aside by CHI for future long-term purposes, including capital improvements and self-insurance. In addition, assets limited as to use include amounts held by trustees under bond indenture agreements, amounts contributed by donors with stipulated restrictions and amounts held for Mission and Ministry programs.

1. Summary of Significant Accounting Policies (continued)

CHI has designated its investment portfolio as trading. Accordingly, unrealized gains and losses on marketable securities are reported within excess of revenues over expenses. In addition, cash flows from the purchases and sales of marketable securities are reported as a component of operating activities in the accompanying consolidated statements of cash flows.

Direct investments in equity securities with readily determinable fair values and all direct investments in debt securities have been measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

Investments in limited partnerships and limited liability companies are recorded using the equity method of accounting (which approximates fair value as determined by the net asset values of the related unitized interests) with the related changes in value in earnings reported as investment income in the accompanying consolidated financial statements.

Inventories

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

Assets and Liabilities Held for Sale

A long-lived asset or disposal group of assets and liabilities that is expected to be sold within one year is classified as held for sale. For long-lived assets held for sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell. Such valuations include estimates of fair values generally based upon discounted cash flows and incremental direct costs to transact a sale.

Property and Equipment

Property and equipment are stated at historical cost or, if donated or impaired, at fair value at the date of receipt or impairment. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. For property and equipment under capital lease, amortization is determined over the shorter period of the lease term or the estimated useful life of the property and equipment. Interest cost incurred during the period of construction of major capital projects is capitalized as a component of the cost of acquiring those assets. Capitalized interest of $14.6 million and $14.7 million was recorded in 2012 and 2011, respectively.

1. Summary of Significant Accounting Policies (continued)

Costs incurred in the development and installation of internal-use software are typically expensed if they are incurred in the preliminary project stage or post-implementation stage, while certain costs are capitalized if incurred during the application development stage. Amounts capitalized are amortized over the useful life of the developed asset following project completion.

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 as changes in equity of unconsolidated organizations.

Intangible Assets and Goodwill

Intangible assets are amortized over the estimated useful life of each class of amortizable asset using the straight-line method. Amortization expense of $4.9 million and $6.1 million was recorded in 2012 and 2011, respectively. Intangible assets increased $20.8 million in 2012 due to the Nebraska Heart Hospital and Nebraska Heart Institute acquisition discussed in Note 4, *Acquisitions and Divestitures*, and the acquisition of a cardiology practice in Tacoma.

Goodwill is not amortized but is subject to annual impairment tests as well as more frequent reviews whenever circumstances indicate a possible impairment may exist. Impairment testing of goodwill is done at the MBO level by comparing the fair value of the MBO's net assets against the carrying value of the MBO's net assets, including goodwill. The fair value of net assets is calculated based on quantitative analysis of discounted cash flows. The fair value of goodwill is determined by assigning fair values to assets and liabilities and calculating any remaining fair value as the implied fair value of goodwill.

Goodwill increased $91.2 million due to the Nebraska Heart Hospital and Nebraska Heart Institute acquisition discussed in Note 4, *Acquisitions and Divestitures*, and the acquisition of a cardiology practice in Tacoma.

1. Summary of Significant Accounting Policies (continued)

A summary of intangible assets and goodwill is as follows as of June 30 (in thousands):

	2012	2011
Intangible assets	**$ 62,754**	$ 41,930
Less accumulated amortization	**(20,298)**	(15,525)
	42,456	26,405
Goodwill	**120,424**	29,212
Total intangible assets and goodwill, net	**$ 162,880**	$ 55,617

Notes Receivable and Other Assets

Other assets consist primarily of notes receivable, pledges receivable, deferred compensation assets, deposits and other long-term assets. Notes receivable include balances from the following related entities: Alegent Health and Alegent Health Immanuel Medical Center (collectively, Alegent), the Nebraska joint operating company (JOC) and non-CHI joint operating agreement (JOA) partner, respectively; and Bethesda Hospital, Inc. (Bethesda), the non-CHI JOA partner in the Cincinnati, Ohio JOA. All of the notes bear interest at rates commensurate with the CHI blended interest cost and require monthly debt service payments.

A summary of notes receivable and other assets is as follows as of June 30 (in thousands):

	2012	2011
Notes receivable from related entities:		
Total notes receivable from related entities	**$ 465,400**	$ 511,091
Reinsurance recoverable on unpaid losses and loss adjustment expense	**42,703**	39,066
Deferred compensation assets	**18,809**	21,726
Other long-term assets	**78,201**	67,583
Total notes receivable and other	**$ 605,113**	$ 639,466

Alegent and Bethesda are Designated Affiliates in the CHI credit group under the Capital Obligation Document (COD). As conditions of joining the CHI credit group, the Designated Affiliates have agreed to certain covenants related to corporate existence, insurance coverage, exempt use of bond-financed facilities, maintenance of certain financial ratios and compliance with limitations on the incurrence of additional debt. Based upon management's review of the creditworthiness of the Designated Affiliates and their compliance with the covenants and limitations, no allowances for uncollectible notes receivable were recorded at June 30, 2012 and 2011.

1. Summary of Significant Accounting Policies (continued)

Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, including endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donor's wishes primarily to purchase equipment, to provide charity care and to provide other health and educational programs and services.

Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. Conditional promises and indications of donors' intentions to give are reported at fair value at the date the conditions are met or the gifts are received. All unrestricted contributions are included in the excess of revenue over expenses as donation revenues. Other gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as donations revenue when restricted for operations or as unrestricted net assets when restricted for property and equipment.

Performance Indicator

The performance indicator is the excess of revenues over expenses, which includes all changes in unrestricted net assets other than changes in the pension liability funded status, net assets released from restrictions for property acquisitions, the cumulative effect of changes in accounting principles, discontinued operations, contributions of property and equipment, and other changes not required to be included within the performance indicator under generally accepted accounting principles.

Operating and Nonoperating Activities

CHI's primary mission is to meet the health care needs in its market areas through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, physician services, long-term care and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Earnings from fixed-income investments held by FIIL are also classified within operating activities as such earnings support FIIL operations. Other activities that result in gains or losses peripheral to CHI's primary mission are considered to be nonoperating. Nonoperating activities include all other investment earnings; losses from bond defeasance; net interest cost and changes in fair value of interest rate swaps; and the nonoperating component of JOA income share adjustments.

1. Summary of Significant Accounting Policies (continued)

Charity Care

As an integral part of its mission, CHI accepts and treats all patients without regard to the ability to pay. Services to patients are classified as charity care in accordance with standards established across all MBOs. Charity care represents services rendered for which partial or no payment is expected, and includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. The cost of charity care is determined on the basis of an MBO's total cost as a percentage of total charges applied to the charges incurred by patients qualifying for charity care under CHI's policy and is not included in net patient services revenues in the accompanying consolidated statements of operations and changes in net assets. The estimated cost of charity care provided was $248.7 million and $235.8 million in 2012 and 2011, respectively, for continuing operations, and $24.6 million and $9.2 million in 2012 and 2011, respectively, for discontinued operations.

Other Nonpatient Revenues

Other nonpatient revenues include gains and losses on the sales of assets, the operating portion of revenue-sharing income or expense associated with Direct Affiliates that are part of JOAs, cafeteria sales, rental income, retail pharmacy and durable medical equipment sales, auxiliary and gift shop revenues, and revenues from other miscellaneous sources.

Derivative and Hedging Instruments

CHI uses derivative financial instruments (interest rate swaps) in managing its capital costs. These interest rate swaps are recognized at fair value on the consolidated balance sheets. CHI has not designated its interest rate swaps related to CHI's long-term debt as hedges. The net interest cost and change in the fair value of such interest rate swaps is recognized as a component of nonoperating gains (losses) in the accompanying consolidated statements of operations. It is CHI's policy to net the value of collateral on deposit with counterparties against the fair value of its interest rate swaps in other liabilities on the consolidated balance sheets.

Functional Expenses

CHI provides inpatient, outpatient, ambulatory, long-term care and community-based services to individuals within the various geographic areas supported by its facilities. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services and other functions that are supported centrally for all of CHI. Support services expenses as a percent of total operating expenses were approximately 5.0% and 4.7% in 2012 and 2011, respectively.

1. Summary of Significant Accounting Policies (continued)

Restructuring, Impairment and Other Losses

CHI periodically evaluates property, equipment, goodwill and certain other intangible assets to determine whether assets may have been impaired. Management determined there were certain property and equipment impairments in both 2012 and 2011 to the extent that the fair values (estimated based upon discounted cash flows) of those assets were less than the underlying carrying values.

During the years ended June 30, 2012 and 2011, CHI recorded total charges of $58.7 million and $25.7 million, respectively, relating to asset impairments and changes in business operations, including reorganization and severance costs. Of this amount, $47.7 million and $20.4 million were from continuing operations and reported in the consolidated statements of operations for 2012 and 2011, respectively, and $11.0 million and $5.3 million were reported as discontinued operations in the consolidated statements of changes in net assets for 2012 and 2011, respectively.

Income Taxes

CHI is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI owns certain taxable subsidiaries and engages in certain activities that are unrelated to its exempt purpose and therefore subject to income tax.

Management reviews its tax positions annually and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated financial statements.

Use of Estimates

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

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements and Adoption of New Accounting Standards

In August 2010, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) No. 2010-23, *Measuring Charity Care for Disclosure.* ASU 2010-23 requires the disclosure of charity care amounts and requires that cost be used as the measurement basis for charity care. The accounting provisions also specifically require that charity care not be reduced by reimbursement for charity care, and that the amount of reimbursements for charity care be disclosed. CHI adopted the disclosure provisions of ASU 2010-23 during 2012.

In August 2010, the FASB released ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries.* ASU 2010-24 applies to malpractice claims and similar contingent liabilities and requires that such liabilities disregard the effect of any anticipated insurance recoveries in determining the liability amounts. The accounting provisions also provide accounting guidance for recording any insurance recovery receivables. ASU 2010-24 was effective for fiscal years beginning after December 15, 2010, and was adopted by CHI in fiscal year 2012, with no material effect on its overall consolidated results of financial position, operations or cash flows.

In July 2011, the FASB released ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Entities*. ASU 2011-07 requires health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient services revenues from an operating expense to a deduction from patient services revenues (net of contractual allowances and discounts). Additionally, enhanced disclosures will be required surrounding the entity's policies for recognizing revenue and assessing bad debts. ASU 2011-07 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011. CHI does not believe its adoption of ASU 2011-07 will have a material effect on its overall consolidated results of financial position, operations or cash flows.

Meaningful Use of Certified Electronic Health Record Technology Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 to certain hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology in ways that demonstrate improved quality and effectiveness of care. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. An initial Medicaid incentive payment is available to providers that adopt, implement or upgrade certified EHR technology. However, in order to receive additional Medicaid incentive payments in subsequent years, providers must demonstrate continued meaningful use of EHR technology.

1. Summary of Significant Accounting Policies (continued)

CHI accounts for meaningful use incentive payments under the gain contingency model. Medicare EHR incentive payments are recognized as revenues when eligible providers demonstrate meaningful use of certified EHR technology and the cost report information for the full cost report year that will determine the full calculation of the incentive payment is available. Medicaid EHR incentive payments are recognized as revenues when an eligible provider demonstrates meaningful use of certified EHR technology. For fiscal year 2012, CHI recognized $11.3 million of Medicare meaningful use revenues and $20.7 million of Medicaid meaningful use revenues in its consolidated statements of operations.

Reclassifications

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

2. Community Benefit (Unaudited)

In accordance with its mission and philosophy, CHI commits substantial resources to sponsor a broad range of services to both the poor and the broader community. Community benefit provided to the poor 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.

Community benefit provided to the broader community includes the costs of providing services to other populations who may not qualify as poor 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.

2. Community Benefit (Unaudited) (continued)

A summary of the cost of community benefit provided to both the poor and the broader community is as follows (in thousands):

	2012	2011
Cost of community benefit:		
Cost of charity care provided	**$ 248,667**	$ 235,756
Unpaid cost of public programs, Medicaid and other indigent care programs	**280,785**	235,326
Nonbilled services	**28,514**	23,327
Cash and in-kind donations	**3,221**	2,950
Education and research	**49,640**	33,165
Other benefit	**52,369**	61,362
Total cost of community benefit from continuing operations	**663,196**	591,886
Total cost of community benefit from discontinued operations	**51,815**	20,260
Total cost of community benefit	**715,011**	612,146
Unpaid cost of Medicare from continuing operations	**368,245**	439,316
Unpaid cost of Medicare from discontinued operations	**26,226**	22,042
Total unpaid cost of Medicare	**394,471**	461,358
Total cost of community benefit and the unpaid cost of Medicare	**$ 1,109,482**	$ 1,073,504

The summary above has been prepared in accordance with the policy document of the Catholic Health Association of the United States (CHA), *Community Benefit Program – A Revised Resource for Social Accountability*. Community benefit is measured on the basis of total cost, net of any offsetting revenues, donations or other funds used to defray cost.

The total cost of community benefit from continuing and discontinued operations was 7.0% and 6.6% of total expenses before operating expenses related to restructuring, impairment and other losses in 2012 and 2011, respectively. The total cost of community benefit and the unpaid cost of Medicare from continuing and discontinued operations was 10.8% and 11.6% of total expenses before operating expenses related to restructuring, impairment and other losses in 2012 and 2011, respectively.

3. Joint Operating Agreements and Investments in Unconsolidated Organizations

Joint Operating Agreements

CHI participates in JOAs with hospital-based organizations in five separate market areas. The agreements generally provide for, among other things, joint management through JOCs of the combined operations of the local facilities included in the JOAs. CHI retains ownership of the assets, liabilities, equity, revenues and expenses of the CHI facilities that participate in the JOAs. The financial statements of the CHI facilities managed under all JOAs are included in the CHI consolidated financial statements. Transfers of assets from facilities owned by the JOA participants generally are restricted under the terms of the agreements.

CHI has a 70% interest in a JOC based in Colorado and has interests of 50% in three other JOCs associated with other JOAs. These interests are included in investments in unconsolidated organizations and totaled $99 million and $125 million at June 30, 2012 and 2011, respectively. CHI recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide varying levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization. The unconsolidated JOCs had total assets of $688 million and $721 million at June 30, 2012 and 2011, respectively, and net assets of $156 million and $209 million, respectively.

Investments in Unconsolidated Organizations

CHI Kentucky – Effective on January 1, 2012, CHI purchased a controlling interest in Jewish Hospital and St. Mary's Healthcare Inc. and affiliates (JHSMH). CHI contributed its controlling interest, including its 25% joint venture investment in JHSMH, into a newly formed consolidated subsidiary, KentuckyOne Health (see Note 4, *Acquisitions and Divestitures*). As a result of the change in control of its investment in JHSMH, CHI recognized a gain on the remeasurement of its joint venture investment of $45.0 million reported in other revenue.

CHI's prior 25% joint venture investment in JHSMH was created on November 1, 2005, with CHI contributing substantially all of the net assets of the former MBO in Louisville, Kentucky, with a value of $7 million, along with $20 million, paid in quarterly installments through August 2008. The investment in the joint venture was accounted for under the equity method of accounting. It had a book value of $30 million at June 30, 2011, and was included in investments in unconsolidated organizations. In fiscal year 2011, the joint venture had annual operating revenues of approximately $1.0 billion, and total assets of $920 million and net assets of $335 million as of June 30, 2011. Prior to the contribution of the 25% joint venture investment in January 2012, the joint venture had executed a note to CHI with monthly payments of principal and interest. The note was included in other assets as of June 30, 2011, and had a balance of $25 million. Subsequent to the contribution of the 25% joint venture investment in JHSMH into KentuckyOne Health, the note is considered an intercompany transaction and eliminated in consolidation.

3. Joint Operating Agreements and Investments in Unconsolidated Organizations (continued)

Preferred Professional Insurance Corporation (PPIC) – PPIC is an unconsolidated affiliate of CHI. PPIC provides professional liability insurance and other related services to preferred physician and other health care providers that are associated with its owners. CHI owns a 27% interest in PPIC and accounts for its investment under the equity method of accounting. The book value of the investment was $50 million and $49 million at June 30, 2012 and 2011, respectively. PPIC had net assets of $184 million and $183 million at December 31, 2011 and 2010, respectively.

Other Entities – The summarized financial positions and results of operations for the other entities accounted for under the equity method as of and for the periods ended June 30, excluding the investments described above, are as follows (in thousands):

	2012					
	Medical Office Buildings	**Outpatient and Diagnostic Services**	**Ambulatory Surgery Centers**	**Physician Practices**	**Other Investees**	**Total**
Total assets	**$ 29,557**	**$ 141,683**	**$ 58,575**	**$ 19,997**	**$ 258,784**	**$ 508,596**
Total debt	**27,793**	**12,866**	**10,627**	**8,637**	**18,062**	**77,985**
Net assets	**1,160**	**102,401**	**42,396**	**8,462**	**169,870**	**324,289**
Net patient services revenues	**–**	**159,001**	**125,121**	**33,254**	**228,446**	**545,822**
Total revenues, net	**5,845**	**159,805**	**125,326**	**35,685**	**439,806**	**766,467**
Excess of revenues over expenses	**477**	**26,251**	**34,367**	**5,854**	**26,072**	**93,021**

	2011					
	Medical Office Buildings	**Outpatient and Diagnostic Services**	**Ambulatory Surgery Centers**	**Physician Practices**	**Other Investees**	**Total**
Total assets	$ 28,439	$ 129,620	$ 63,130	$ 21,028	$ 246,490	$ 488,707
Total debt	26,315	42,133	13,023	10,664	20,013	112,148
Net assets	1,263	86,316	46,024	8,054	164,528	306,185
Net patient services revenues	–	125,066	116,927	33,991	195,163	471,147
Total revenues, net	5,834	139,594	117,020	37,452	481,395	781,295
Excess of revenues over expenses	679	16,236	31,659	6,142	95,751	150,467

4. Acquisitions and Divestitures

Continuing Operations

KentuckyOne Health – Effective on January 1, 2012, CHI acquired an additional 58% interest in JHSMH from Jewish Hospital HealthCare Services, Inc. (JHHS) in exchange for a noncontrolling interest in KentuckyOne Health, a new statewide health care network in the state of Kentucky, through the combination of JHSMH and St. Joseph Health System, a CHI-sponsored MBO. CHI has a controlling interest of approximately 83% in KentuckyOne Health and JHHS has the remaining 17% interest. The fair value of the noncontrolling interest of $181.6 million was determined using valuation techniques including discounted cash flows.

Upon the change in control, the fair value of the assets and liabilities of JHSMH were allocated as follows (in thousands):

Patient receivables	$ 116,733
Other receivables	6,307
Current portion of assets limited as to use	5,567
Inventory	15,772
Prepaid and other current assets	11,672
Cash, investments and assets limited as to use	275,764
Property and equipment	451,662
Deferred financing costs	3,945
Investments in unconsolidated organizations	5,290
Other assets	8,095
Accrued compensation and benefits	(33,683)
Third-party liabilities	(1,691)
Accounts payable and accrued expenses	(107,903)
Current portion of long-term debt	(7,518)
Other liabilities	(87,459)
Long-term debt	(404,050)
Net assets acquired	$ 258,503

CHI began consolidating the results of JHSMH's operations effective January 1, 2012. The acquisition of JHSMH added $477.1 million of operating revenues and $62.2 million of deficit of revenues over expenses to the CHI consolidated results of operations from January 1 to June 30, 2012. On an unaudited pro forma basis, had CHI owned JHSMH at the beginning of each fiscal year, JHSMH would have reported $959.9 million and $991.4 million of operating revenues in 2012 and 2011, respectively, $84.2 million of deficiency of revenues over expenses in 2012, and $32.1 million of excess of revenues over expenses in 2011. However, the unaudited pro forma

4. Acquisitions and Divestitures (continued)

information is not necessarily indicative of the historical results that would have been obtained had the transaction actually occurred on those dates, nor of future results.

Nebraska Heart Hospital and Nebraska Heart Institute – Effective on August 1, 2011, CHI acquired Nebraska Heart Hospital and Nebraska Heart Institute. The acquisition allowed CHI to expand cardiac, thoracic and vascular care across the state of Nebraska. The gross purchase price of $131.1 million cash consideration was allocated as follows (in thousands):

Cash	$ 146
Patient receivables	8,080
Other receivables	1,735
Inventory	1,302
Prepaid and other assets	1,777
Property and equipment	45,150
Intangible assets	10,123
Goodwill	69,786
Accrued compensation and benefits	(3,063)
Accounts payable and accrued expenses	(3,354)
Other liabilities	(555)
Purchase price	$ 131,127

Nebraska Heart Hospital and Nebraska Heart Institute added $81.2 million of operating revenues and $5.7 million of excess of revenues over expenses to the CHI consolidated results of operations from August 1, 2011 to June 30, 2012. On an unaudited pro forma basis, had CHI owned Nebraska Heart Hospital and Nebraska Heart Institute at the beginning of each fiscal year, they would have reported $90.2 million and $95.1 million of operating revenues in 2012 and 2011, respectively, and $6.3 million and $14.7 million of excess of revenues over expenses in 2012 and 2011, respectively. However, the unaudited pro forma information is not necessarily indicative of the historical results that would have been obtained had the transaction actually occurred on those dates, nor of future results.

Consolidated Health Services (CHS) – Effective on October 1, 2010, CHI acquired CHS, headquartered near Cincinnati, Ohio, from Bethesda, Inc., an Ohio nonprofit corporation. CHS is a home health care service provider operating in 30 locations in Indiana, Kentucky and Ohio. The gross purchase price of the acquisition was $43.3 million ($35.5 million, net of cash acquired), which was allocated as follows (in thousands):

4. Acquisitions and Divestitures (continued)

Cash	$	7,814
Patient receivables		6,534
Current deferred tax asset		2,077
Property and equipment		3,260
Investment in unconsolidated organizations		17,900
Intangibles		12,064
Deferred tax asset		1,503
Goodwill		6,479
Other assets		5,960
Other liabilities		(13,210)
Deferred tax liability		(7,034)
Purchase price	$	43,347

Consolidated Health Services contributed $60.3 million of operating revenues and $2.9 million of excess of revenues over expenses to the CHI consolidated results of operations for fiscal year 2012, and $47.8 million of operating revenues and $2.5 million of excess of revenues over expenses to the CHI consolidated results of operations for fiscal year 2011.

Discontinued Operations

CHI has committed to a plan to sell the MBOs in Denville, New Jersey; Towson, Maryland; and Pierre, South Dakota. Effective in March 2012, CHI entered into exclusive negotiations with the intent of signing a non-binding Letter of Intent to transfer ownership of the Denville MBO to Ascension Health Care Network, Inc., an affiliate of Ascension Health; the Towson MBO to the University of Maryland Medical Systems; and the Pierre MBO to Avera Health. All the transactions are subject to governmental and Church approvals. It is anticipated that a definitive asset purchase agreement for the sale of the Denville MBO will be finalized and have a closing date prior to January 1, 2013. The asset purchase agreement for the sale of the Towson MBO is being negotiated with an expected closing date of November 1, 2012. No final agreement has been reached for the sale of the Pierre MBO as discussions are ongoing with Avera Health. In accordance with Accounting Standards Codification (ASC) 205-20, *Discontinued Operations,* and ASC 360-10, *Impairment and Disposal of Long-Lived Assets,* the results of operations associated with these MBOs have been reported as discontinued operations and are included in the consolidated statements of changes in net assets. Assets held for sale consist primarily of cash and investments, net patient accounts receivable, net property and other long-term assets. Liabilities held for sale consist of accounts payable and accrued compensation and benefits.

4. Acquisitions and Divestitures (continued)

Related to the MBOs held for sale, CHI recorded a deficiency of revenues over expenses of $45.2 million and $13.2 million for the years ended June 30, 2012 and 2011, respectively, which is reported as discontinued operations in the accompanying consolidated statements of changes in net assets. Total operating revenues and deficiency of revenues over expenses included in the results of discontinued operations for the years ended June 30 are summarized below (in thousands):

	2012	2011
Total operating revenues	**$ 714,405**	$ 727,886
Total operating expenses	**(748,388)**	(753,466)
Restructuring and other losses	**(10,987)**	(5,293)
Nonoperating (losses) gains	**(207)**	17,642
Deficiency of revenues over expenses	**$ (45,177)**	$ (13,231)

The consolidated statements of cash flows include the use of $45.4 million and $12.8 million of operating, investing and financing activities related to discontinued operations for the years ended June 30, 2012 and 2011, respectively.

Dayton Heart and Vascular Hospital – Effective on July 28, 2011, the Dayton Heart and Vascular Hospital was sold for $16.0 million. No gain or loss was recorded as a result of the sale. The property was classified as an asset held for sale on the consolidated balance sheet as of June 30, 2011.

5. Net Patient Services Revenues

Net patient services revenues are derived from services provided to patients who are either directly responsible for payment or are covered by various insurance or managed care programs. CHI receives payments from the federal government on behalf of patients covered by the Medicare program, from state governments for Medicaid and other state-sponsored programs, from certain private insurance companies and managed care programs and from patients themselves. A summary of payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or procedure. These rates vary according to patient classification systems based on clinical, diagnostic and other factors. Certain CHI facilities have been designated as critical access hospitals and, accordingly, are reimbursed their cost of providing services to Medicare beneficiaries. Professional services rendered by physicians are paid based on the Medicare allowable fee schedule.

5. Net Patient Services Revenues (continued)

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are primarily paid under the traditional Medicaid plan at prospectively determined rates per discharge. Certain outpatient services are reimbursed based on a cost reimbursement methodology, fee schedules or discounts from established charges.

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

CHI's Medicare, Medicaid and other payor utilization percentages, based upon net patient services revenues, are summarized as follows:

	2012	**2011**
Medicare	**31%**	30%
Medicaid	**7**	8
Managed care	**39**	39
Self-pay	**8**	8
Commercial and other	**15**	15
	100%	100%

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated settlements related to Medicare and Medicaid of $57 million and $44 million at June 30, 2012 and 2011, respectively, are included in third-party liabilities. Net patient services revenues from continuing operations increased by $20.5 million in 2012 and $32.1 million in 2011 due to favorable changes in estimates related to prior-year settlements. Also during 2012, CHI prevailed on the appeal of two cost report settlements from the Centers for Medicare and Medicaid Services (CMS) related to the calculation used by CMS for the rural floor wage index and for the disallowance of insurance premiums paid to FIIL. The settlement amounts are included in the 2012 net patient services revenues from continuing operations, and totaled $76.7 million for the rural floor wage index and $19.8 million for the insurance premiums. The appeals spanned years from 1997 through 2011.

6. Investments and Assets Limited as to Use

CHI's investments and assets limited as to use as of June 30 are reported in the accompanying consolidated balance sheets as presented in the following table (in thousands):

	2012	2011
Cash and equivalents	**$ 155,418**	$ 141,283
CHI Investment Program	**4,827,922**	4,891,140
Marketable equity securities	**315,064**	308,846
Marketable fixed-income securities	**477,440**	416,484
Hedge funds and other investments	**162,190**	151,373
	5,938,034	5,909,126
Less current portion	**(1,901)**	(19,554)
	$ 5,936,133	$ 5,889,572

Net unrealized gains at June 30, 2012 and 2011, were $144.0 million and $298.0 million, respectively.

CHI attempts to reduce its market risk by diversifying its investment portfolio using cash equivalents, fixed-income securities, marketable equity securities and alternative investments. Most of the U.S. Treasury, money market funds and corporate debt obligations as well as exchange-traded marketable securities held by CHI and the CHI Investment Program (the Program) have an actively traded market. However, CHI also invests in commercial paper, mortgage-backed or other asset-backed securities, alternative investments (such as hedge funds, private equity investments, real estate funds, funds of funds, etc.), collateralized debt obligations, municipal securities and other investments that have potential complexities in valuation based upon the current conditions in the credit markets. For some of these instruments, evidence supporting the determination of fair value may not come from trading in active primary or secondary markets. Because these investments may not be readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had an active market for such investments existed. Such differences could be material. However, management reviews the CHI investment portfolio on a regular basis and seeks guidance from its professional portfolio managers related to U.S. and global market conditions to determine the fair value of its investments. CHI believes the carrying amount of these financial instruments in the consolidated financial statements is a reasonable estimate of fair value. Additionally, CHI assesses the risk of impairment related to securities held in its investment portfolio on a regular basis and noted no impairment during the years ended June 30, 2012 and 2011.

6. Investments and Assets Limited as to Use (continued)

Substantially all CHI long-term investments are held in the Program. The Program is structured under a Limited Partnership Agreement with CHI as managing general partner and numerous limited partners, most sponsored by CHI. The partnership provides a vehicle whereby virtually all entities associated with CHI, as well as certain other unrelated entities, can seek to optimize investment returns while managing investment risk. Entities participating in the Program that are not consolidated in the accompanying financial statements have the ability to direct their invested amounts and liquidate and/or withdraw their interest without penalty as soon as practicable based on market conditions but within 180 days of notification. The Limited Partnership Agreement permits a majority vote of the noncontrolled limited partners to terminate the partnership. Accordingly, CHI recognizes only the portion of Program assets attributable to CHI and its sponsored affiliates. Program assets attributable to CHI and its direct affiliates represented 86% of total Program assets at June 30, 2012 and 2011.

The Program asset allocation at June 30 is as follows:

	2012	2011
Marketable equity securities	**44%**	45%
Marketable fixed-income securities	**35**	34
Alternative investments	**19**	19
Cash and equivalents	**2**	2
	100%	100%

The CHI Investment Committee (the Investment Committee) of the Board of Stewardship Trustees is responsible for determining asset allocations among fixed-income, equity and alternative investments. At least annually, the Investment Committee reviews targeted allocations and, if necessary, makes adjustments to targeted asset allocations. Given the diversity of the underlying securities in which the Program invests, management does not believe there is a significant concentration of credit risk.

6. Investments and Assets Limited as to Use (continued)

Investment income is comprised of the following for the years ended June 30 (in thousands):

	2012	2011
Dividend and interest income	**$ 123,432**	$ 116,710
Net realized gains	**86,566**	268,526
Net unrealized (losses) gains	**(153,000)**	448,793
Total investment income from continuing operations	**$ 56,998**	$ 834,029
Included in other nonpatient revenue	**$ 37,169**	$ 30,475
Included in nonoperating gains	**19,829**	803,554
Total investment income from continuing operations	**56,998**	834,029
Total investment (loss) income from discontinued operations	**(207)**	17,642
Total investment income	**$ 56,791**	$ 851,671

Direct expenses of the Program are less than 0.4% of total assets. Fees paid to the alternative investment managers are not included in the total expense calculation as they are not a direct expense of the Program.

7. Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are 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 asset or liability.

7. Fair Value of Assets and Liabilities (continued)

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

Certain of CHI's alternative investments are made through limited liability companies (LLCs) and limited liability partnerships (LLPs). These LLCs and LLPs provide CHI with a proportionate share of the investment gains (losses). CHI accounts for its ownership in the LLCs and LLPs under the equity method. CHI also accounts for its ownership in the Partnership under the equity method. As such, these investments are excluded from the scope of ASC 820.

Financial assets and liabilities measured at fair value on a recurring basis were determined using the following inputs at June 30 (in thousands):

	2012 Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of June 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 155,418	$ 108,448	$ 46,970	$ –
Marketable equity securities	315,064	315,064	–	–
Marketable fixed-income securities	477,440	900	476,540	–
Other investments	1,953	–	–	1,953
Deferred compensation assets:				
Cash and short-term investments	10,852	10,852	–	–
	$ 960,727	$ 435,264	$ 523,510	$ 1,953
Liabilities				
Interest rate swaps	$ 238,549	$ –	$ 238,549	$ –
Deferred compensation liability	10,852	10,852	–	–
	$ 249,401	$ 10,852	$ 238,549	$ –

7. Fair Value of Assets and Liabilities (continued)

	2011 Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of June 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 141,283	$ 133,011	$ 8,272	$ –
Marketable equity securities	308,846	308,846	–	–
Marketable fixed-income securities	416,484	79,903	336,581	–
Other investments	2,255	–	–	2,255
Deferred compensation assets:				
Cash and short-term investments	12,761	12,761	–	–
	$ 881,629	$ 534,521	$ 344,853	$ 2,255
Liabilities				
Interest rate swaps	$ 116,601	$ –	$ 116,601	$ –
Deferred compensation liability	12,761	12,761	–	–
	$ 129,362	$ 12,761	$ 116,601	$ –

The fair values of the instruments included in Level 1 were determined through quoted market prices. Level 1 instruments include money market funds, mutual funds and marketable debt and equity securities. The fair values of Level 2 instruments were determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads; estimated prepayment rates, where applicable, are used for valuation purposes and are provided by third-party services where quoted market values are not available. Level 2 instruments include corporate fixed-income securities, government bonds, mortgage and asset-backed securities, and interest rate swaps. The fair values of Level 3 securities are determined primarily through information obtained from the relevant counterparties for such investments. Information on which these securities' fair values are based is generally not readily available in the market.

8. Property and Equipment

A summary of property and equipment is as follows as of June 30 (in thousands):

	2012	2011
Land and improvements	**$ 393,367**	$ 327,766
Buildings and improvements	**5,098,617**	4,630,792
Equipment	**3,814,458**	3,491,942
	9,306,442	8,450,500
Less accumulated depreciation	**(4,594,277)**	(4,267,741)
	4,712,165	4,182,759
Construction in progress	**635,310**	363,989
	$ 5,347,475	$ 4,546,748

CHI evaluates whether events and circumstances have occurred that indicate the remaining useful life of property, equipment and certain other intangible assets may not be recoverable. Management determined there were impairment issues in both 2012 and 2011, to the extent that the undiscounted cash flows estimated to be generated by certain assets were less than the underlying carrying value. CHI recorded $16.0 million and $7.8 million in impairment losses in continuing operations for 2012 and 2011, respectively, resulting from charges related to estimated fair value deficiencies (based upon projected discounted cash flows) at various MBOs. Impairment charges of $1.1 million related to assets held for sale were included in discontinued operations in the consolidated statement of changes in net assets for 2011.

9. Debt Obligations

The following is a summary of debt obligations as of June 30 (in thousands):

	Interest Rates at June 30, 2012	2012	2011
Variable-rate Bonds:			
Series 1997B, maturing through 2022	0.28%	**$ 18,900**	$ 24,400
Series 2000B, maturing through 2028	0.18%	**27,300**	81,800
Series 2002B, maturing 2032	0.17–0.18%	**103,300**	106,100
Series 2004B, maturing through 2044	0.17–0.23%	**180,700**	290,900
Series 2004C, maturing through 2044	0.15–0.17%	**163,300**	163,400
Series 2008A, maturing through 2036	0.17%	**120,260**	120,260
Series 2008C, maturing through 2041	0.16%	**50,000**	–
Series 2011B, maturing through 2046	0.18%	**158,155**	–
Series 2011C, maturing through 2046	0.16%	**125,000**	–
Fixed-rate Bonds:			
Series 1989A		**–**	3,390
Series 1995C		**–**	10,145
Series 1997A		**–**	12,950
Series 2000A		**–**	39,600
Series 2002A, maturing 2017	5.50%	**4,140**	4,845
Series 2004A, maturing through 2034	4.75–5.00%	**146,605**	146,605
Series 2006A, maturing through 2041	4.00–5.00%	**384,135**	384,135
Series 2006C, maturing through 2041	3.85–5.10%	**250,000**	250,000
Series 2008C, maturing through 2041	4.00–5.00%	**105,000**	215,000
Series 2008D, maturing through 2038	5.00–6.38%	**473,950**	473,950
Series 2009A, maturing through 2039	3.00–5.50%	**772,110**	794,345
Series 2009B, maturing through 2039	5.00%	**260,995**	260,995
Series 2011A, maturing through 2041	2.00–5.25%	**526,090**	–
Series 2012A, maturing through 2035	3.00–5.00%	**271,260**	–
Commercial Paper		**475,625**	617,400
Unamortized debt issuance premium		**58,832**	21,427
Unamortized debt issuance discount		**(9,801)**	(9,203)
Total CHI debt issued under the COD		**4,665,856**	4,012,444
Capital leases and other debt		**77,391**	122,382
		4,743,247	4,134,826
Less: Amounts classified as current			
Variable-rate debt with self-liquidity		**(321,455)**	(163,400)
Commercial paper and current portion of debt		**(643,083)**	(836,201)
Long-term debt		**$ 3,778,709**	$ 3,135,225

9. Debt Obligations (continued)

The fair value of debt obligations was approximately $5.0 billion at June 30, 2012. Management has determined the carrying values of the variable-rate bonds are representative of fair values as of June 30, 2012, as the interest rates are set by the market participants. The fair value of the fixed-rate tax-exempt bond obligations as of June 30, 2012, is determined by applying credit spreads for similar tax-exempt obligations in the marketplace, which are then used to calculate a price/yield for the outstanding obligations.

A summary of scheduled principal payments, based upon stated maturities, on long-term debt for the next five years is as follows (in thousands):

	Amounts Due
Year Ending June 30:	
2013	$ 639,763
2014	174,229
2015	168,793
2016	183,205
2017	72,071

CHI issues the majority of its debt under the COD and is the sole obligor. Bondholder security resides both in the unsecured promise by CHI to pay its obligations and in its control of its Direct and Designated Affiliates. Covenants include a minimum CHI debt service coverage ratio and certain limitations on secured debt. The Direct Affiliates of CHI, defined as Participants under the COD, have agreed to certain covenants related to corporate existence, maintenance of insurance and exempt use of bond-financed facilities.

In November 2011, CHI issued $809.2 million of fixed-rate, variable-rate and Windows variable-rate bonds (Windows) in the states of Colorado, Kentucky and Washington. Proceeds were used to refund $223.5 million of existing debt and to redeem $116.8 million of commercial paper outstanding. Concurrent with the issuance of these bonds, CHI converted $50.0 million of Ohio Series 2008C-2 bonds to bear interest at weekly rates. Also, during November 2011, CHI redeemed $55.8 million of existing debt. These redemptions resulted in a loss on extinguishment of $0.7 million.

In connection with the acquisition of JHSMH in January 2012, CHI acquired $342.0 million of JHSMH 2008 series bonds and $43.0 million of JHSMH 1996 series bonds. In January 2012, the 1996 bonds were legally defeased, which resulted in a loss on defeasance of $0.5 million. In April 2012, CHI issued $271.3 million of par value bonds in the state of Kentucky. Debt proceeds of $299.7 million and cash of $114.3 million were used to refund $322.9 million and

9. Debt Obligations (continued)

legally defease $88.4 million of the 2008 bonds. The transaction resulted in a loss on extinguishment of $69.4 million.

CHI has two types of external liquidity facilities: those that are dedicated to specific series of variable-rate demand bonds (VRDBs) and those that are not dedicated to a particular series of VRDBs but may be used to support CHI's obligations to fund tenders of VRDBs and pay the maturing principal of commercial paper. Liquidity facilities that are dedicated to specific series of bonds were $625.5 million and $623.5 million at June 30, 2012 and 2011, respectively, of which $9.4 million and $18.8 million, respectively are classified as current debt. The remaining $616.1 million and $604.7 million at June 30, 2012 and 2011, respectively, are reported as long term debt due to the repayment terms on any associated drawings extending beyond the subsequent fiscal year under the terms of the specific agreements.

Liquidity facilities not dedicated for specific series of VRDBs but used to support CHI's obligations to fund tenders and to pay maturing principal of commercial paper were $435.0 million and $565.0 million at June 30, 2012 and 2011, respectively. At June 30, 2012 and 2011, respectively, $475.6 million and $617.4 million of commercial paper were classified as current due to maturities of less than one year, and $321.5 million of VRDBs and Windows, and $163.4 million of VRDBs, respectively, were classified as current due to the holder's ability to put such VRDBs and Windows back to CHI without liquidity facilities dedicated to these bonds.

At June 30, 2012, CHI had a $60.0 million credit facility with Wells Fargo Bank. Letters of credit totaling $58.6 million have been issued for the benefit of third parties, principally in support of the self-insurance programs administered by FIIL. At June 30, 2012 and 2011, no amounts were outstanding under this credit facility.

CHI is a party to seven floating-to-fixed interest rate swap agreements with notional amounts totaling $931.8 million and $942.8 million at June 30, 2012 and 2011, respectively. Generally, it is CHI policy that all counterparties have an AA rating or better. The swap agreements require CHI to provide collateral if CHI's liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based upon the rating on the corporation's long-term indebtedness. These fixed-payor swap agreements convert CHI's variable-rate debt to fixed-rate. The seven swaps have varying maturity dates ranging from May 2025 to December 2036. The fair value of the swaps is estimated based on the present value sum of anticipated future net cash settlements until the swaps' maturities. At June 30, 2012 and 2011, the fair value was $238.5 million and $116.6 million, respectively. Cash collateral balances of $140.7 million and $47.0 million at June 30, 2012 and 2011, respectively, are netted against the fair value of the swaps, and the net amount is reflected in other liabilities. The change in the fair value of these agreements was a net loss of $121.9 million in 2012 and a net gain of $26.9 million in 2011.

10. Retirement Plans

CHI and its direct affiliates maintain noncontributory, defined benefit retirement plans (Plans) covering substantially all employees. Benefits in the Plans are based on compensation, retirement age and years of service. Vesting occurs over a five-year period. Substantially all of the Plans are qualified as church plans and are exempt from certain provisions of both the Employee Retirement Income Security Act and Pension Benefit Guaranty Corporation premiums and coverage. Funding requirements are determined through consultation with independent actuaries.

CHI recognizes the funded status (that is, the difference between the fair value of plan assets and the projected benefit obligations) of its Plans in the consolidated balance sheets, with a corresponding adjustment to net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension cost in the same periods are recognized as a component of net assets.

In connection with the acquisition of JHSMH in January 2012, CHI acquired the pension liabilities of JHSMH, herein referred to as the JHSMH plan.

10. Retirement Plans (continued)

A summary of the changes in the benefit obligation, fair value of plan assets and funded status of the Plans at the June 30 measurement dates is as follows (in thousands):

	2012	2011
Change in benefit obligation:		
Benefit obligation, beginning of year	**$ 2,767,988**	$ 2,648,696
Service cost	**169,477**	167,444
Interest cost	**153,204**	143,536
Actuarial loss (gain)	**446,352**	(80,030)
JHSMH plan	**183,733**	–
Settlements	**(8,495)**	–
Benefits paid	**(110,851)**	(111,340)
Expenses paid	**(177)**	(318)
Benefit obligation, end of year	**3,601,231**	2,767,988
Change in the Plans' assets:		
Fair value of the Plans' assets, beginning of year	**2,452,465**	1,917,500
Actual return on the Plans' assets, net of expenses	**45,002**	454,343
Employer contributions	**194,279**	192,280
JHSMH plan	**136,188**	–
Settlements	**(8,495)**	–
Benefits paid	**(110,851)**	(111,340)
Expenses paid	**(177)**	(318)
Fair value of the Plans' assets, end of year	**2,708,411**	2,452,465
Funded status of the Plans	**$ (892,820)**	$ (315,523)
End-of-year values:		
Projected benefit obligation	**$ 3,601,231**	$ 2,767,988
Accumulated benefit obligation	**3,428,819**	2,598,491

Included in net assets at June 30, 2012, are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service cost of $0.9 million and unrecognized actuarial losses of $1.2 billion. The prior service cost and actuarial loss included in net assets and expected to be recognized in net periodic pension cost during the fiscal year ending June 30, 2013, are $0.2 million and $92.5 million, respectively.

10. Retirement Plans (continued)

The components of net periodic pension expense are as follows (in thousands):

	2012	2011
Components of net periodic pension expense:		
Service cost	**$ 169,477**	$ 167,444
Interest cost	**153,204**	143,536
Expected return on the Plans' assets	**(198,093)**	(183,365)
Amortization of prior service benefit	**187**	893
Actuarial losses	**39,029**	47,550
	$ 163,804	$ 176,058
Weighted-average assumptions:		
Discount rate, beginning of year	**5.39%**	5.24%
Discount rate, end of year	**4.06**	5.39
Expected return on the Plans' assets	**7.75**	8.00
Rate of compensation increase	**3.75**	4.25

The assumption for the expected return on the Plans' assets is based on historical returns and adherence to the asset allocations set forth in the Plans' investment policies. The expected return on the Plans' assets for determining pension cost was 7.75% in 2012 and 8.00% in 2011. The decrease in the discount rate to 4.06% at June 30, 2012 increased the pension benefit obligation by approximately $420.3 million.

A summary of the Plans' asset allocation targets, ranges by asset class and allocations by asset class at the measurement dates of June 30 is as follows:

	2012	2011	Target	Range
Fixed-income securities	**29.8%**	26.1%	27.5%	17.5–37.5%
Equity securities	**51.2**	53.7	52.5	42.5–62.5
Alternative investments	**19.0**	20.2	20.0	10.0–30.0

The Plans' assets are invested in a portfolio designed to preserve principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. Diversification is achieved by allocating assets to various asset classes and investment styles and by retaining multiple investment managers with complementary philosophies, styles and approaches. Although the objective of the Plans is to maintain asset allocations close to target, temporary periods may exist where allocations are outside of the expected range due to market conditions. The use of leverage is prohibited except as specifically directed in the alternative investment allocation. The portfolio is managed on a basis consistent with the CHI social responsibility guidelines.

10. Retirement Plans (continued)

The Plans' assets measured at fair value on a recurring basis were determined using the following inputs at June 30 (in thousands):

	2012			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	**(Level 2)**	**(Level 3)**
	Fair Value as of June 30	**Quoted Prices in Active Markets**	**Other Observable Inputs**	**Unobservable Inputs**
Cash and short-term investments	**$ 128,098**	**$ 117,585**	**$ 10,513**	**$ –**
Marketable equity securities	**1,318,456**	**1,318,456**	**–**	**–**
Marketable fixed-income securities	**756,137**	**230,647**	**525,490**	**–**
Alternative investments	**505,720**	**–**	**–**	**505,720**
	$ 2,708,411	**$ 1,666,688**	**$ 536,003**	**$ 505,720**

	2011			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	**(Level 2)**	**(Level 3)**
	Fair Value as of June 30	**Quoted Prices in Active Markets**	**Other Observable Inputs**	**Unobservable Inputs**
Cash and short-term investments	$ 133,920	$ 80,363	$ 53,557	$ –
Marketable equity securities	1,276,810	1,276,810	–	–
Marketable fixed-income securities	547,052	122,806	424,246	–
Alternative investments	494,683	–	–	494,683
	$ 2,452,465	$ 1,479,979	$ 477,803	$ 494,683

10. Retirement Plans (continued)

A summary of the changes in the fair value of the Plans' investments for which Level 3 inputs were used at the June 30 measurement dates is as follows (in thousands):

	2012	2011
Beginning investments at fair value	**$ 494,683**	$ 415,079
Purchases of investments	**24,306**	41,499
Proceeds from sale of investments	**(32,860)**	(23,322)
Net change in unrealized appreciation on investments and effect of foreign currency translation	**2,426**	43,066
Net realized gains on investments	**17,346**	18,369
Net transfers out of Level 3	**(181)**	(8)
Ending investments at fair value	**$ 505,720**	$ 494,683

CHI expects to contribute $195.1 million to the Plans in fiscal year 2013. A summary of expected benefits to be paid to the Plans' participants and beneficiaries is as follows (in thousands):

	Estimated Payments
Year Ending June 30:	
2013	$ 187,219
2014	171,532
2015	183,811
2016	211,306
2017	243,581
2018–2022	1,522,626

11. Concentrations of Credit Risk

CHI grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. CHI's exposure to credit risk on patient accounts receivable is limited by the geographical diversity of its MBOs. The mix of receivables from patients and third-party payors at June 30 approximated the following:

	2012	2011
Medicare	**26%**	23%
Medicaid	**11**	7
Managed care	**32**	36
Self-pay	**6**	10
Commercial and other	**25**	24
	100%	100%

CHI maintains long-term investments with various financial institutions and investment management firms through its investment program, and its policy is designed to limit exposure to any one institution or investment. Management does not believe there are significant concentrations of credit risk at June 30, 2012 and 2011.

12. Commitments and Contingencies

Litigation

During the normal course of business, CHI 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 CHI.

Health Care Regulatory Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Management believes CHI is in compliance with all applicable laws and regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be subject to future governmental interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Certain CHI entities have

12. Commitments and Contingencies (continued)

been contacted by governmental agencies regarding alleged violations of Medicare practices for certain services. In the opinion of management after consultation with legal counsel, the ultimate outcome of these matters will not have a material adverse effect on CHI's consolidated financial position.

Operating Leases

CHI leases certain real estate and equipment under operating leases, which may include renewal options and escalation clauses. Future minimum lease payments required for the next five years and thereafter for all operating leases that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2012, are as follows (in thousands):

	Amounts Due
Year Ending June 30:	
2013	$ 104,407
2014	91,753
2015	75,761
2016	68,627
2017	61,038
Thereafter	210,019
	$ 611,605

Lease expense under operating leases for continuing operations for the years ended June 30, 2012 and 2011, totaled approximately $175 million and $145 million, respectively.

13. Insurance Programs

FIIL, a wholly owned captive insurance company of CHI, provides hospital professional liability, employment practices liability and commercial general liability coverage, primarily to MBOs related to CHI either on a directly written basis or through reinsurance fronting relationships with commercial carriers such as PPIC. Policies written provide coverage with primary limits in the amount of $8 million for each and every claim. For the policy year July 1, 2011 to July 1, 2012, there is an annual policy aggregate of $75 million eroded by hospital professional liability and commercial general liability claims, subject to a $175,000 continuing underlying per claim limit. Effective July 1, 2011, FIIL provided excess umbrella liability coverage for claims in excess of the underlying limits discussed above. The limits provided under such excess coverage are $200 million per claim and in the aggregate. Prior to July 1, 2011, CHI had obtained excess coverage directly from commercial insurance companies. FIIL reinsured 100% of the excess coverage layer with various commercial insurance companies. At June 30, 2012 and 2011, investments and assets limited as to use held for insurance purposes included $59 million and $58 million, respectively, held as collateral for the reinsurance fronting arrangement with PPIC.

13. Insurance Programs (continued)

FIIL provides workers' compensation coverage, either on a directly written basis or through reinsurance fronting relationships with commercial carriers for amounts above $1 million per claim. Coverage of $500,000 in excess of $500,000 per claim is reinsured with an unrelated commercial carrier. FIIL also underwrites the property and casualty risks of CHI for up to $1 million per claim. Unrelated commercial insurance carriers reinsure losses in excess of the per-claim limits.

The liability for self-insured reserves and claims represents the estimated ultimate net cost of all reported and unreported losses incurred through June 30. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-based valuations, statistical analyses and the expertise of an independent actuary.

The estimates for loss reserves are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid losses and loss adjustment expenses are adequate. The estimates are reviewed periodically, with consultation from independent actuaries, and any adjustments to the loss reserves are reflected in current operations. As a result of these reviews of claims experience, estimated reserves were reduced by $47.8 million and $19.3 million in 2012 and 2011, respectively. The reserves for unpaid losses and loss adjustment expenses relating to the workers' compensation program were discounted, assuming a 4% annual return at June 30, 2012 and 2011, to a present value of $147.1 million and $148.8 million at June 30, 2012 and 2011, respectively, and represented a discount of $46.3 million and $32.2 million in 2012 and 2011, respectively. Reserves related to professional liability, employment practices and general liability are not discounted.

FIIL holds $722.1 million and $715.7 million of investments held for insurance purposes as of June 30, 2012 and 2011, respectively. Distribution of amounts from FIIL to CHI are subject to the approval of the Cayman Island Monetary Authority. CHI established a captive management operation (Captive Management Initiatives, Ltd.) based in the Cayman Islands, which currently manages FIIL as well as operations of other unrelated parties.

CHI, through its Welfare Benefit Administration and Development Trust, provides comprehensive health and dental coverage to certain employees and dependents through a self-insured medical plan. Accounts payable and accrued expenses include $54 million and $45 million for unpaid claims and claims adjustment expenses for CHI's self-insured medical plan at June 30, 2012 and 2011, respectively. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid losses and loss adjustment expenses are adequate. The estimates are reviewed periodically and, as adjustments to the liability become necessary, such adjustments are reflected in current operations. CHI has stop-loss insurance to cover unusually high costs of care beyond a predetermined annual amount per enrolled participant.

14. Subsequent Events

CHI's management has evaluated events subsequent to June 30, 2012 through September 18, 2012, which is the date these consolidated financial statements were available to be issued. There have been no material events noted during this period that would either impact the results reflected herein or CHI's results going forward, except as disclosed below.

Alegent Health

Since 1996, CHI and Immanuel have been party to a Joint Operating Agreement in Omaha, operating under the name Alegent Health (Alegent). Effective in June 2012, CHI and Immanuel signed a letter of intent under which Immanuel will resign its membership and governance role in Alegent, leaving CHI as the sole member and sponsor of Alegent. The transaction is expected to close in late 2012.

In April 2012, Alegent also entered into an agreement with Creighton University to form a long-term strategic affiliation and to acquire Creighton University Medical Center (CUMC). Effective in September 2012, Alegent assumed the operations of CUMC's physician group, Creighton Medical Associates. Although CHI is not currently a party to this transaction, it would become one as a result of the June 2012 letter of intent with Immanuel discussed above.

PeaceHealth

In August 2012, CHI signed a nonbinding letter of intent with PeaceHealth, a Catholic health care system, to create a new integrated regional health care system in the states of Washington, Oregon and Alaska. CHI and PeaceHealth would be equal partners in the new health system and would include CHI's operations in the states of Washington and Oregon. The transaction is subject to various approvals and is expected to be completed before June 30, 2013.

Conifer Health Solutions

Effective in fiscal year 2013, CHI entered into an agreement with Tenet Healthcare to become a minority owner of Conifer Health Solutions (Conifer), a provider of revenue cycle and business management services to hospitals, whereby, in exchange for CHI's ownership interest, Conifer will manage the revenue cycle services for most of CHI's hospitals. CHI will be transitioning its revenue cycle and health information management employees to Conifer over the 2013 fiscal year.

Supplemental Information

Ernst & Young LLP
Suite 3300
370 17th Street
Denver, CO 80202

Tel: +1 720 931 4000
Fax: +1 720 931 4444
www.ey.com

Report of Independent Auditors on Supplemental Information

Board of Stewardship Trustees
Catholic Health Initiatives

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

Ernst & Young LLP

September 18, 2012

Catholic Health Initiatives
Consolidating Balance Sheet

June 30, 2012
(In Thousands)

	MBOs	Corporate	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Assets							
Current assets:							
Cash and equivalents	$ 329,818	$ 42,280	$ 119	$ 29,705	$ 2,050	$ –	$ 403,972
Net patient accounts receivable, less allowance of $687,631	1,353,928	–	–	–	–	–	1,353,928
Other accounts receivable	127,010	74,618	5,182	313	34,400	(124,916)	116,607
Current portion of investments and assets limited as to use	1,901	–	–	–	–	–	1,901
Inventories	185,571	–	–	–	–	–	185,571
Assets held for sale	474,990	–	–	–	–	–	474,990
Prepaid and other	52,678	34,265	13	157	66	–	87,179
Total current assets	2,525,896	151,163	5,314	30,175	36,516	(124,916)	2,624,148
Investments and assets limited as to use:							
Internally designated for capital and other funds	3,415,100	1,083,825	–	89,594	–	–	4,588,519
Mission and Ministry Fund	–	110,918	–	–	–	–	110,918
Capital Resource Pool	–	320,218	–	–	–	–	320,218
Held by trustees	228	–	–	–	–	–	228
Held for insurance purposes	23,058	–	722,069	–	–	–	745,127
Restricted by donors	170,638	485	–	–	–	–	171,123
Total investments and assets limited as to use	3,609,024	1,515,446	722,069	89,594	–	–	5,936,133
Property and equipment, net	4,870,828	475,473	–	–	1,174	–	5,347,475
Deferred financing costs	188	28,529	–	–	–	–	28,717
Investments in unconsolidated organizations	209,279	1,161,507	–	–	8,922	(1,071,790)	307,918
Intangible assets	162,880	–	–	–	–	–	162,880
Notes receivable and other	76,590	2,995,622	20,518	–	–	(2,487,617)	605,113
Total assets	$ 11,454,685	$ 6,327,740	$ 747,901	$ 119,769	$ 46,612	$ (3,684,323)	$ 15,012,384

Continued on following page

Catholic Health Initiatives
Consolidating Balance Sheet (continued)

June 30, 2012
(In Thousands)

	MBOs	Corporate	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Liabilities and net assets							
Current liabilities:							
Compensation and benefits	$ 363,171	$ 52,224	$ –	$ 1,374	$ 1,828	$ –	$ 418,597
Third-party liabilities	76,660	–	–	–	–	–	76,660
Accounts payable and accrued expenses	551,084	228,885	3,961	53,478	3,326	(121,837)	718,897
Liabilities held for sale	103,633	–	–	–	–	–	103,633
Variable-rate debt with self liquidity	–	321,455	–	–	–	–	321,455
Current portion of long-term debt	124,416	629,115	–	–	–	(110,448)	643,083
Total current liabilities	1,218,964	1,231,679	3,961	54,852	5,154	(232,285)	2,282,325
Pension liability	83,364	809,456	–	–	–	–	892,820
Self-insured reserves and claims	16,338	37,185	460,061	–	–	–	513,584
Other liabilities	118,120	121,722	–	–	–	(3,079)	236,763
Long-term debt	2,440,592	3,715,286	–	–	–	(2,377,169)	3,778,709
Total liabilities	3,877,378	5,915,328	464,022	54,852	5,154	(2,612,533)	7,704,201
Net assets:							
Net assets attributable to CHI	7,367,623	236,379	283,879	64,917	41,458	(1,071,790)	6,922,466
Net assets attributable to noncontrolling interests	5,317	175,546	–	–	–	–	180,863
Unrestricted	7,372,940	411,925	283,879	64,917	41,458	(1,071,790)	7,103,329
Temporarily restricted	136,334	487	–	–	–	–	136,821
Permanently restricted	68,033	–	–	–	–	–	68,033
Total net assets	7,577,307	412,412	283,879	64,917	41,458	(1,071,790)	7,308,183
Total liabilities and net assets	$ 11,454,685	$ 6,327,740	$ 747,901	$ 119,769	$ 46,612	$ (3,684,323)	$ 15,012,384

Catholic Health Initiatives
Consolidating Statement of Operations

Year Ended June 30, 2012
(In Thousands)

	MBOs	Corporate	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Revenues:							
Net patient services	$ 9,336,797	$ –	$ –	$ –	$ –	$ (112,938)	$ 9,223,859
Nonpatient:	–						
Donations	25,960	2,008	–	–	–	–	27,968
Changes in equity of unconsolidated organizations	16,504	8,642	–	–	(2,206)	(6)	22,934
Investment income from self-insured trust funds	3,024	–	34,145	–	–	–	37,169
Other	379,163	855,699	133,740	372,557	6,516	(1,215,334)	532,341
Total nonpatient revenues	424,651	866,349	167,885	372,557	4,310	(1,215,340)	620,412
Total operating revenues	9,761,448	866,349	167,885	372,557	4,310	(1,328,278)	9,844,271
Expenses:							
Salaries and wages	3,523,165	241,526	–	–	11,743	(46)	3,776,388
Employee benefits	822,465	25,993	–	376,459	1,725	(477,587)	749,055
Purchased services, medical professional fees, consulting and legal	1,129,211	147,068	653	2,094	3,086	(356,685)	925,427
Supplies	1,558,339	7,694	–	–	334	–	1,566,367
Bad debts	709,654	–	–	–	–	–	709,654
Utilities	107,781	12,399	–	–	25	–	120,205
Rentals, leases, maintenance and insurance	310,596	310,725	135,412	–	1,112	(234,769)	523,076
Depreciation and amortization	453,484	19,935	–	–	354	–	473,773
Interest	96,926	134,101	–	–	–	(101,379)	129,648
Other	655,555	11,122	991	598	666	(157,807)	511,125
Total operating expenses before restructuring, impairment and other losses	9,367,176	910,563	137,056	379,151	19,045	(1,328,273)	9,484,718
Income (loss) from operations before restructuring, impairment and other losses	394,272	(44,214)	30,829	(6,594)	(14,735)	(5)	359,553
Restructuring, impairment and other losses	24,226	22,813	–	–	696	–	47,735
Income (loss) from operations	370,046	(67,027)	30,829	(6,594)	(15,431)	(5)	311,818
Nonoperating gains (losses):							
Investment income (loss), net	33,881	(6,377)	(10,159)	2,488	(4)	–	19,829
Loss on defeasance of bonds	(69,878)	(677)	–	–	–	–	(70,555)
Realized and unrealized losses on interest rate swaps	–	(153,411)	–	–	–	–	(153,411)
Other nonoperating (losses) gains	(12,215)	(35,323)	–	–	–	35,323	(12,215)
Total nonoperating (losses) gains	(48,212)	(195,788)	(10,159)	2,488	(4)	35,323	(216,352)
Excess (deficiency) of revenues over expenses	$ 321,834	$ (262,815)	$ 20,670	$ (4,106)	$ (15,435)	$ 35,318	$ 95,466
Excess (deficiency) of revenues over expenses attributable to noncontrolling interest	$ 6,542	$ (6,005)	$ –	$ –	$ –	$ –	$ 537
Excess (deficiency) of revenues over expenses attributable to CHI	$ 315,292	$ (256,810)	$ 20,670	$ (4,106)	$ (15,435)	$ 35,318	$ 94,929

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.

APPENDIX C

AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011 OF BETHESDA HOSPITAL INC. AND SUBSIDIARIES

[THIS PAGE INTENTIONALLY LEFT BLANK]

Consolidated Financial Statements and Supplementary Information

Bethesda Hospital, Inc. and Subsidiaries
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Bethesda Hospital, Inc. and Subsidiaries

Consolidated Financial Statements and Supplementary Information

June 30, 2012 and 2011

Contents

Ernst & Young LLP
1900 Scripps Center
312 Walnut Street
Cincinnati, OH 45202

Tel: +1 513 612 1400
Fax: +1 513 612 1730
www.ey.com

Report of Independent Auditors

The Board of Trustees
of Bethesda Hospital, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Bethesda Hospital, Inc. and Subsidiaries (the Hospital), a subsidiary of Bethesda, Inc., as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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 consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bethesda Hospital, Inc. and Subsidiaries at June 30, 2012 and 2011, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The unaudited community benefit information in Note B is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, accordingly, we do not express any assurances on such information.

Ernst & Young LLP

September 28, 2012

Bethesda Hospital, Inc. and Subsidiaries

Consolidated Balance Sheets

	June 30 2012	June 30 2011
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 9,792**	$ 18,635
Net patient accounts receivable, less allowance of $21,869 in 2012 and $19,153 in 2011	**37,299**	36,498
Other accounts receivable	**2,064**	1,161
Current portion of assets limited as to use	**19,168**	22,143
Inventories	**1,969**	1,731
Prepaid and other current assets	**2,215**	2,417
Current portion of due from related organizations, net	**710**	3,284
Total current assets	**73,217**	85,869
Assets limited as to use and investments:		
Assets limited as to use:		
Internally designated for capital and other funds	**317,562**	329,903
Restricted by donors	**3,155**	2,992
Trustee-held funds under professional liability funding arrangement	**20,637**	24,041
Investments	**23,797**	30,419
Total assets limited as to use and investments	**365,151**	387,355
Property and equipment, net	**265,955**	253,297
Investments in unconsolidated organizations	**6,201**	4,563
Goodwill and identifiable intangible assets	**19,353**	–
Due from related organizations	**29,977**	22,635
Other long-term assets	**5,814**	100
Total assets	**$ 765,668**	$ 753,819

1204-1346957

		June 30	
		2012	2011
		(In Thousands)	
Liabilities and net assets			
Current liabilities:			
Compensation and benefits		**$ 22,443**	$ 19,497
Third-party liabilities		**4,687**	6,982
Accounts payable and accrued expenses		**22,564**	26,137
Network affiliation payable		**33**	11,137
Current portion of long-term debt		**12,198**	11,617
Total current liabilities		**61,925**	75,370
Accrued professional liability		**22,282**	18,758
Pension obligation		**58,124**	34,301
Long-term compensation and benefits and other long-term liabilities		**20,889**	17,838
Capital lease obligation		**21,923**	–
Long-term debt		**188,275**	200,473
Total liabilities		**373,418**	346,740
Net assets:			
Unrestricted		**380,040**	397,655
Temporarily restricted		**12,210**	9,424
Total net assets		**392,250**	407,079
Total liabilities and net assets		**$ 765,668**	$ 753,819

See accompanying notes.

Bethesda Hospital, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended June 30 2012	2011
	(In Thousands)	
Revenue		
Net patient service revenue:		
Acute inpatient	**$ 276,902**	$ 261,099
Outpatient	**254,383**	238,907
Other patient	**33,585**	31,369
Total net patient service revenue	**564,870**	531,375
Nonpatient (loss) revenue:		
Loss from unconsolidated organizations	**(16,031)**	(9,896)
Operating loss from network affiliation	**(3,765)**	(7,811)
Other revenue, net	**16,757**	18,431
Total revenue	**561,831**	532,099
Expenses		
Salaries and wages	**174,861**	168,509
Employee benefits	**50,506**	47,523
Medical professional fees	**4,433**	3,798
Purchased services	**28,004**	25,306
Supplies	**99,362**	100,927
Bad debts	**44,485**	39,582
Utilities	**5,015**	5,414
Insurance	**(1,820)**	3,673
Rental, leases, and maintenance	**13,815**	13,044
Depreciation and amortization	**22,673**	22,616
Interest	**9,684**	10,158
Shared service allocation	**68,421**	57,797
Other, net	**12,126**	10,272
Total operating expenses	**531,565**	508,619
Income from operations	**30,266**	23,480
Nonoperating (loss) income:		
Nonoperating income (loss) from network affiliation	**3,732**	(3,326)
Investment (loss) income	**(7,307)**	52,238
Total nonoperating (loss) income	**(3,575)**	48,912
Excess of revenue over expenses	**26,691**	72,392

(Continued on next page)

Bethesda Hospital, Inc. and Subsidiaries

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

	Year Ended June 30 2012	2011
	(In Thousands)	
Excess of revenue over expenses	**$ 26,691**	$ 72,392
Change in plan assets and benefit obligation of pension plan	**(26,286)**	22,192
Change in funded status of TriHealth, Inc. pension plan	**(8,313)**	3,489
Transfer to Bethesda, Inc.	**(10,000)**	(10,000)
Other changes in net assets, net	**3,079**	2,841
(Decrease) increase in net assets	**(14,829)**	90,914
Net assets at beginning of year	**407,079**	316,165
Net assets at end of year	**$ 392,250**	$ 407,079

See accompanying notes.

Bethesda Hospital, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2012	**2011**
	(In Thousands)	
Operating activities		
Changes in net assets	**$ (14,829)**	$ 90,914
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	**44,485**	39,582
Depreciation and amortization	**22,673**	22,616
Loss from unconsolidated organizations	**16,031**	9,896
Change in plan assets and benefit obligation of pension plan	**26,286**	(22,192)
Change in funded status of TriHealth, Inc. pension plan	**8,313**	(3,489)
Transfer to Bethesda, Inc.	**10,000**	10,000
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	**(46,189)**	(40,671)
Other current assets	**695**	14
Current liabilities	**(16,004)**	9,437
Change in due to/from related organizations	**(12,409)**	12,821
Other changes, net	**(1,500)**	(5,291)
Net cash provided by operating activities, before net change in assets limited as to use and investments	**37,552**	123,637
Net change in assets limited as to use and investments	**25,179**	(58,273)
Net cash provided by operating activities	**62,731**	65,364
Investing activities		
Additions to property and equipment	**(11,216)**	(10,182)
Transfer to TriHealth, Inc.	**(16,150)**	(21,000)
Transfer to Bethesda, Inc.	**(10,000)**	(10,000)
Acquisition of Butler County Medical Center	**(23,736)**	–
Change in investments in unconsolidated organizations	**1,587**	237
Net cash used in investing activities	**(59,515)**	(40,945)
Financing activities		
Repayment of long-term debt	**(11,617)**	(12,076)
Repayment of capital lease obligation	**(442)**	–
Net cash used in financing activities	**(12,059)**	(12,076)
(Decrease) increase in cash and cash equivalents	**(8,843)**	12,343
Cash and cash equivalents at beginning of year	**18,635**	6,292
Cash and cash equivalents at end of year	**$ 9,792**	$ 18,635

See accompanying notes.

A. Summary of Significant Accounting Policies

Organization

Bethesda Hospital, Inc. and Subsidiaries (the Hospital), an Ohio nonprofit corporation, is a subsidiary of Bethesda, Inc., an Ohio non-profit corporation recognized by the Internal Revenue Service as exempt from federal income taxation under Section 501(a) of the Internal Revenue Code as a charitable organization described in section 501(c)(3) of the Internal Revenue Code. The mission of the Hospital is to provide health care and related services through its inpatient, outpatient, and community-based facilities and programs. The Hospital has a long-term commitment to medical education through its support of the physician residency program and healthcare training programs for technicians, as well as patient education in disease management and awareness.

The Hospital is a participant in a network affiliation agreement with The Good Samaritan Hospital of Cincinnati, Ohio (the Partner), an Ohio non-profit corporation recognized by the Internal Revenue Service as exempt from the federal income taxation under Section 501(a) of the Internal Revenue Code as a charitable organization described in section 501(c)(3) of the Internal Revenue Code. The agreement provides for, among other things, joint management of the combined operations of the facilities of the Hospital and the Partner. The Hospital and the Partner share the excess of revenue over expenses, as defined in the network affiliation agreement. The Hospital and the Partner also own 50% each of a joint venture, TriHealth, Inc. (Note N). The Hospital accounts for TriHealth, Inc. using the equity method of accounting.

Basis of Presentation

The consolidated financial statements of the Hospital include the accounts of Bethesda Hospital, Inc. (including Bethesda Northeast Cardiac Center, LLC, a consolidated majority-owned joint venture), Senior Services, a division of Bethesda Hospital, Inc., and Hospice of Cincinnati Inc. and Subsidiary (Hospice) and Bethesda Properties, Inc., subsidiaries of Bethesda Hospital, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

(Dollar Amounts in Thousands)

A. Summary of Significant Accounting Policies (continued)

On March 1, 2012, the Hospital acquired Butler County Medical Center (BCMC) and Butler County Ancillary Center (BCAC) (collectively, Butler), an Ohio non-profit corporation located in Butler County, Ohio (northwest Cincinnati). The Hospital acquired certain assets and liabilities of Butler from Prexus Health Partners, LLC and Butler County Ancillary Services, LLC. BCMC is an acute-care, medical–surgical hospital featuring endoscopy, ENT, general surgery, obstetrics and gynecology, ophthalmology, plastic surgery, podiatry, urology, special procedures, inpatient hospital and pain management. BCAC provides ancillary services including, specialties such as internal medicine, family practice, pulmonary, gastroenterology, neurology, cardiology, nephrology, diagnostic imaging, physical therapy, and sleep services. The intent of the purchase is to strengthen the Hospital's health care delivery system in northwest Cincinnati.

The Hospital paid cash of $23,736 at the time of closing. This business combination was accounted for using the purchase method of accounting. The purchase price was allocated to the assets acquired and liabilities assumed based on their determined fair value. The following summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

Inventories	$ 650
Property and equipment, net	3,897
Identifiable intangible assets	1,715
Goodwill	17,740
Assets acquired	24,002
Liabilities assumed	(266)
Cash paid	$ 23,736

Identifiable intangible assets consist primarily of non-compete agreements. Amortization of the intangible assets is calculated using the straight-line method over estimated lives ranging from 3 to 7 years. Amortization expense was $102 from the date of acquisition to June 30, 2012.

A. Summary of Significant Accounting Policies (continued)

The financial position of Butler (subsequently recognized as a department of Bethesda Hospital, Inc.) is included in the consolidated financial statements as of June 30, 2012 and the results of operations and cash flows are included for the period of March 1, 2012 to June 30, 2012. Upon acquisition, Butler became a department of Bethesda Hospital Inc., and as a result, a separate presentation of the consolidated financial statements is not prepared.

Fair Value Measurements

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

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

- Level 1 – inputs utilize quoted market prices in active markets for identical assets or liabilities that the Hospital has the ability to access.

- Level 2 – inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

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

A. Summary of Significant Accounting Policies (continued)

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

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

Cash and Cash Equivalents

Cash and cash equivalents include all deposits with banks and investments in interest-bearing securities with maturity dates of 90 days or less from the date of purchase.

Net Patient Accounts Receivable

Net patient accounts receivable and net patient service revenue have been adjusted to the estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors.

(Dollar Amounts in Thousands)

A. Summary of Significant Accounting Policies (continued)

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Management periodically assesses the adequacy of the allowances for uncollectible accounts based upon historical write-off experience. The results of these reviews are used to modify as necessary the provisions for bad debts and to establish appropriate allowances for uncollectible net patient accounts receivable. After satisfaction of amounts due from insurance, the Hospital follows established guidelines for placing certain patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the Hospital.

Financial instruments that potentially subject the Hospital to concentrations of credit risk consist primarily of nongovernmental patient accounts receivable. The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The percentages of gross patient accounts receivable from patients and third-party payors at June 30 approximated the following:

	2012	2011
Medicare	**17%**	20%
Medicaid	**3**	2
Managed care	**21**	19
Self-pay	**26**	25
Commercial and other	**33**	34
	100%	100%

Inventories

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

Assets Limited as to Use and Investments

Assets limited as to use and investments include assets set aside for future long-term purposes, including capital improvements, amounts contributed by donors with stipulated restrictions, and trustee-held funds under professional liability funding arrangement.

A. Summary of Significant Accounting Policies (continued)

Substantially all of the Hospital's assets limited as to use are held in the Bethesda Master Trust (the Trust) which is professionally managed under the administration of Bethesda, Inc. (and the Bethesda Investment Committee). The Hospital's investments are represented by percentage allocation rather than specific securities. The Hospital accounts for its investments in the Trust similar to the equity method of accounting.

Assets limited as to use and investments held outside the Trust include cash and cash equivalents, marketable debt and marketable equity securities.

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

The global financial markets and banking system are subject to volatility which could adversely impact the Hospital. The Hospital's assets limited as to use and investments are exposed to various risks such as interest rate, market, and credit risks.

Property and Equipment

Property and equipment are stated at historical cost or, if donated or impaired, at fair market value at the date of receipt or determination. Depreciation is provided over the estimated useful life of each class of depreciable asset which range from 2 to 40 years, and is computed using the straight-line method. For property and equipment under capital lease, amortization is determined over the shorter period of the lease term or the estimated useful life of the property and equipment and is included in depreciation and amortization expense. Depreciation expense was $22,571 and $22,616 for the years ended June 30, 2012 and 2011, respectively, and is included in depreciation and amortization expense.

The cost and related accumulated depreciation of property and equipment that is sold or retired are removed from the respective accounts and the resulting gain or loss is recorded in other revenue, net. Select property and equipment purchased prior to year-end are excluded from the additions to property and equipment, net in the consolidated statements of cash flows as cash payment was not made at the end of the year. These excluded additions as of June 30, 2012 and 2011 were $537 and $686, respectively.

A. Summary of Significant Accounting Policies (continued)

Investments in Unconsolidated Organizations

The Hospital maintains an ownership percentage of 50% or less in various joint ventures and other companies that do not require consolidation. These investments are accounted for using the equity method of accounting.

Net Assets

Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. Conditional promises and indications of donors' intentions to give are reported at fair value at the date the conditions are met or the gifts are received. All unrestricted contributions are included in the excess of revenue over expenses as other revenue, net. Other gifts are reported as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as other revenue, net when restricted for operations or as unrestricted net assets when restricted for property and equipment. Temporarily restricted net assets are primarily restricted for strategic capital projects and in support of the Hospital's mission.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, negotiated discounts from established rates, and per diem payments.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments due to future audits, review, and investigations. The differences between the estimated and actual adjustments are recorded as part of net patient service revenue in future periods, as the amounts become known, or as years are no longer subject to such audits, reviews, and investigations.

A. Summary of Significant Accounting Policies (continued)

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 Hospital's attainment of program and attestation criteria and are subject to regulatory audit. As of June 30, 2012, the Hospital has not attested to attaining the program criteria, and no payments under the program have been received and no revenue has been recognized.

Charity Care

As an integral part of its mission, the Hospital accepts and treats all patients without regard to the ability to pay. Services to patients are classified as charity care in accordance with established criteria. Charity care represents services rendered for which partial or no payment is expected and, as such is not included in net patient service revenue in the consolidated statements of operations and changes in net assets. The estimated direct and indirect costs of charity care, quantified as the cost of free or discounted health services provided to persons who cannot afford to pay, was $13,531 and $14,786 for the years ended June 30, 2012 and 2011, respectively. Charity care costs are estimated based on multiplying the ratio of costs to gross charges for all payments not attributable to other community benefits programs by the revenue recognized and written-off for health services provided to persons who cannot afford to pay. The Ohio Hospital Care Assurance Program (HCAP) provides some reimbursement to the Hospital for services provided to qualified persons who cannot afford to pay. The amount of net HCAP reimbursements was $1,312 and $2,420 for the years ended June 30, 2012 and 2011, respectively.

Other Revenue, Net

Other revenue, net includes cafeteria revenue, rental income, auxiliary and gift shop revenue, program support from Bethesda Foundation, Inc., gains and losses on the sale or disposal of property and equipment, and revenue from other miscellaneous sources.

A. Summary of Significant Accounting Policies (continued)

Excess of Revenue Over Expenses

The consolidated statements of operations and changes in net assets include the line excess of revenue over expenses which represents the operating indicator for the Hospital. Consistent with industry practice, changes in net assets which are excluded from the excess of revenue over expenses include change in plan assets and benefit obligation of pension plan, change in funded status of TriHealth, Inc. pension plan, transfers to Bethesda, Inc., and certain other changes in net assets.

Federal Income Taxes

The Hospital, excluding Bethesda Northeast Cardiac Center, LLC and Bethesda Properties, Inc., are comprised of entities that have been recognized by the Internal Revenue Service as exempt from income taxation under Section 501(a) of the Internal Revenue Code as charitable organizations described in Section 501(c)(3) of the Internal Revenue Code. Bethesda Properties, Inc. is recognized by the Internal Revenue Service as exempt from income taxation under Section 501(a) of the Internal Revenue Code as a title-holding corporation described in Section 501(c)(2) of the Internal Revenue Code. Bethesda Northeast Cardiac Center, LLC, is treated as a partnership for federal income tax purposes and thus is not directly subject to income taxation. The Hospital completed an analysis of uncertain tax positions in accordance with applicable accounting guidance at June 30, 2012 and 2011, and determined no amounts were required to be recognized in the consolidated financial statements at June 30, 2012 and 2011.

Litigation

During the normal course of business, the Hospital 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 Hospital.

A. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets, liabilities, revenue, and expenses. Actual results could vary from those estimates.

Reclassifications

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

Recent Accounting Pronouncements

The FASB has issued Accounting Standards Update (ASU) No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. The amendments in ASU 2010-24 clarify that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010. The ASU is effective for fiscal 2012 and has been adopted by the Hospital in the consolidated financial statements. The adoption of this ASU resulted in an increase of other long-term assets and accrued professional liability of $5,800.

The FASB has issued ASU No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*. ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost, identified as the direct and indirect costs of providing the charity care, be used as the measurement basis for disclosure purposes. ASU 2010-23 also requires disclosure of the method used to identify such costs. This ASU is effective for fiscal year 2012 and has been adopted by the Hospital in the consolidated financial statements. The adoption of this new standard only impacted disclosures in the notes to the consolidated financial statements.

A. Summary of Significant Accounting Policies (continued)

The FASB issued ASU No. 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-07 is intended to provide financial statement users with greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful receivables. ASU 2011-07 requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of net patient service revenue as well as qualitative and quantitative information about changes in the allowance for doubtful receivables. The Hospital will make the change in the presentation of the provision for bad debts and disclosures as required upon adoption.

The FASB has issued ASU No. 2011-04, *Fair Value Measurements (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosures Requirements in U.S. GAAP and IFRSs*. The amendments in ASU 2011-04 change the wording used to describe many of the requirements in U.S. generally accepted accounting principles for measuring fair value and for disclosing information about fair value measurements. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The Hospital is currently evaluating the impact of the adoption of ASU 2011-04.

Healthcare Regulatory Environment

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Management believes the Hospital is in compliance with all applicable laws and regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be subject to future governmental interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

(Dollar Amounts in Thousands)

B. Community Benefit (Unaudited)

In accordance with its mission and philosophy, the Hospital commits substantial resources to sponsor a broad range of services to both the poor as well as the broader community. Community benefit provided to the poor 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.

Community benefit provided to the broader community includes the costs of providing services to other populations who may not qualify as poor 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 for both the poor and the broader community for the year ended June 30 is as follows (unaudited):

	2012	2011
Cost of community benefit provided to the poor:		
Cost of charity care provided	**$ 13,531**	$ 14,786
Unpaid cost of public programs, Medicaid, and other indigent care programs	**10,415**	8,068
Nonbilled services for the poor	**35**	28
	23,981	22,882
Cost of community benefit provided to the broader community:		
Nonbilled services for the community	**602**	626
Education and research provided for the community	**3,355**	3,866
Other benefit provided to the community	**2,974**	4,101
	6,931	8,593
Total cost of community benefit	**$ 30,912**	$ 31,475

B. Community Benefit (Unaudited) (continued)

The above summary has been prepared in accordance with the policy document of the Catholic Health Association of the United States (CHA), *Community Benefit Program – A Revised Resource for Social Accountability*. Community benefit is measured on the basis of total cost, net of any offsetting revenue, donations or other funds used to defray cost.

C. Net Patient Service Revenue

Net patient service revenue is derived from services provided to patients who are directly responsible for payment or are covered by various insurance or managed care programs. The Hospital receives payments from the federal government on behalf of patients covered by the Medicare program, from state governments for Medicaid and other state-sponsored programs, from certain private insurance companies and managed care programs and from patients themselves. A summary of payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or procedure. These rates vary according to patient classification systems based on clinical, diagnostic, and other factors.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are primarily paid under the traditional Medicaid plan, and are paid at prospectively determined rates per discharge. Certain outpatient services are reimbursed based on a cost reimbursement methodology, fee schedules, or discounts from established charges.

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

(Dollar Amounts in Thousands)

C. Net Patient Service Revenue (continued)

The Hospital's Medicare, Medicaid, and other payor utilization percentages, based upon net patient service revenue, are summarized for the year ended June 30 as follows:

	2012	2011
Medicare	**26%**	27%
Medicaid	**2**	2
Managed care	**22**	22
Self-pay	**4**	4
Commercial and other	**46**	45
	100%	100%

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretations. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue has increased for the years ended June 30, 2012 and 2011 by $6,057 and $884, respectively, due to favorable changes in estimates related to prior years' cost report settlements and other third-party payor activity.

D. Cash and Cash Equivalents, Assets Limited as to Use and Investments

The following is a summary of the carrying value of cash and cash equivalents, assets limited as to use, and investments as of June 30:

	2012	2011
Bethesda Master Trust	**$ 356,772**	$ 372,970
Other:		
Cash and cash equivalents	**9,864**	21,259
Marketable debt securities:		
U.S. government agency	**24,653**	30,866
Corporate	**2,232**	2,426
Marketable equity securities	**590**	612
Total other	**37,339**	55,163
	$ 394,111	$ 428,133

(Dollar Amounts in Thousands)

D. Cash and Cash Equivalents, Assets Limited as to Use and Investments (continued)

Substantially all of the Hospital's assets limited as to use are held in the Trust. The carrying value of the assets held by participants is an allocation of the underlying carrying value of the assets in the Trust, based on the asset allocation specific to each participant and its relative percentage allocation. The asset allocation specific to the Hospital at June 30 is as follows:

	2012	**2011**
Cash and cash equivalents	**2%**	4%
Marketable equity securities	**30**	28
Marketable debt securities	**–**	1
Mutual funds	**20**	20
Alternative investments:		
Hedge funds	**12**	15
Limited liability companies	**16**	16
Private equity funds	**6**	5
Real estate investment trusts	**4**	3
Other limited partnerships	**8**	8
Commingled funds	**2**	–
	100%	100%

The carrying value of cash equivalents, marketable equity securities, marketable debt securities, and mutual funds included in the Trust, 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.

(Dollar Amounts in Thousands)

D. Cash and Cash Equivalents, Assets Limited as to Use and Investments (continued)

The carrying value of hedge funds, limited liability companies, private equity funds, real estate investment trusts, and other limited partnerships, collectively, alternative investments, are based on valuations provided by the administrators of the specific financial instruments. Alternative investments are accounted for similar to the equity method of accounting based on the net asset value (NAV) provided by the respective administrators of the individual alternative investments. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, and private equity instruments. The underlying investments themselves are subject to various risks including market, credit, liquidity, and foreign exchange risk. Bethesda, Inc. believes the value of these financial instruments in the consolidated balance sheets is a reasonable estimate of its ownership interest in the alternative investment NAV. Because these financial instruments are not readily marketable, the 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. Such differences could be material. The Hospital's risk related to alternative investments is limited to its carrying value plus any amounts committed to private equity by Bethesda, Inc.

Investment (loss) income from the Trust, including dividend and interest income (net of expenses), net realized gains on investments, and the net change in unrealized (losses) gains on investments, is distributed to participants based on their relative percentage allocation. The following is a summary of total investment (loss) income for the year ended June 30:

	2012	2011
Dividend and interest income (net of expenses)	**$ 4,012**	$ 4,889
Net realized gains on investments	**1,272**	28,639
Net change in unrealized (losses) gains on investments	**(12,591)**	18,710
	$ (7,307)	$ 52,238

The Hospital's relative allocation, based on the carrying value of the underlying assets of the entire Trust was approximately 68% and 69% at June 30, 2012 and 2011, respectively.

(Dollar Amounts in Thousands)

E. Fair Value Measurements

The carrying amount reported in the consolidated balance sheets for current assets (other than assets limited as to use which are separately disclosed) and current liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments. These financial instruments are not required to be marked to fair value on a recurring basis and therefore are not disclosed in the accompanying table. The Trust is accounted for similar to the equity method of accounting and therefore also not disclosed in the accompanying table. Bethesda, Inc. believes the carrying amount of the Trust approximates fair value based on the nature of the underlying assets.

The following table represents the financial instruments measured at fair value on a recurring basis, outside of the Trust, based on the fair value hierarchy as of June 30:

	2012				**2011**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Cash and cash equivalents	**$ 9,792**	**$ –**	**$ –**	**$ 9,792**	$ 18,635	$ –	$ –	$ 18,635
Assets limited as to use and investments:								
Cash equivalents	**72**	**–**	**–**	**72**	2,624	–	–	2,624
Marketable debt securities:								
U.S. government agency	**–**	**24,653**	**–**	**24,653**	–	30,866	–	30,866
Corporate	**–**	**2,232**	**–**	**2,232**	–	2,426	–	2,426
Marketable equity securities	**590**	**–**	**–**	**590**	612	–	–	612
Total assets limited as to use and investments	**662**	**26,885**	**–**	**27,547**	3,236	33,292	–	36,528
Total assets at fair value	**$ 10,454**	**$ 26,885**	**$ –**	**$ 37,339**	$ 21,871	$ 33,292	$ –	$ 55,163

E. Fair Value Measurements (continued)

The following table represents financial instruments at fair value and at other than fair value which reconcile to the consolidated balance sheets of the Company at June 30:

	2012			2011		
	Financial Instruments at Fair Value	**Financial Instruments at Other Than Fair Value**	**Total**	**Financial Instruments at Fair Value**	**Financial Instruments at Other Than Fair Value**	**Total**
	(In Thousands)					
Assets						
Cash and cash equivalents	**$ 9,792**	**$ –**	**$ 9,792**	$ 18,635	$ –	$ 18,635
Assets limited as to use and Investments	**27,547**	**356,772**	**384,319**	36,528	372,970	409,498
Total assets	**$ 37,339**	**$ 356,772**	**$ 394,111**	$ 55,163	$ 372,970	$ 428,133

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

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

E. Fair Value Measurements (continued)

Following is the summary of the inputs and valuation techniques as of June 30, 2012 and 2011 used for valuing Level 2 securities in the portfolio:

Securities	Input	Valuation Technique
U.S. government agency	Broker/Dealer	Market
Corporate	Broker/Dealer	Market

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 Hospital 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.

The Hospital'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. The Hospital 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.

(Dollar Amounts in Thousands)

E. Fair Value Measurements (continued)

On March 1, 2012, the Hospital acquired Butler (Note A) in a business combination using the purchase method of accounting which requires the acquired assets and assumed liabilities to be initially recorded at fair value (non-recurring). The following table presents the acquired assets and assumed liabilities of Butler as of March 1, 2012 and indicates the fair value hierarchy of the valuation techniques the Hospital utilized to determine such estimated fair values.

	(Level 1)	(Level 2)	(Level 3)	Total
Inventories	$ –	$ 650	$ –	$ 650
Property and equipment, net	–	3,897	–	3,897
Identifiable intangible assets	–	–	1,715	1,715
Goodwill	–	–	17,740	17,740
Total assets	$ –	$ 4,547	$ 19,455	$ 24,002
Assumed liabilities	$ –	$ 266	$ –	$ 266
Total liabilities	$ –	$ 266	$ –	$ 266

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

Non-financial Assets and Liabilities	Input	Valuation Technique
Inventories	Estimate of replacement cost	Cost
Property and equipment, net	Estimate of replacement cost	Cost
Identifiable intangible assets	Discounted cash flows	Income
Goodwill	Discounted cash flows	Income
Assumed liabilities	Estimate of replacement cost	Cost

(Dollar Amounts in Thousands)

F. Property and Equipment

The following is a summary of property and equipment as of June 30:

	2012	2011
Land and improvements	**$ 15,880**	$ 15,423
Buildings and improvements	**348,558**	324,324
Equipment	**201,355**	197,735
	565,793	537,482
Less accumulated depreciation	**305,732**	285,367
	260,061	252,115
Construction-in-progress	**5,894**	1,182
	$ 265,955	$ 253,297

Accounting guidance for asset retirement obligation requires the recognition of a liability for the fair value of asset retirement obligations in instances where there is a legal liability and the amount can be reasonably estimated. Management has recorded asset retirement obligations of $3,857 and $3,902 at June 30, 2012 and 2011, respectively.

The Hospital evaluates whether events and circumstances have occurred that indicate the remaining useful life of property, and equipment may not be recoverable. Management determined there were no impairment issues in 2012 or 2011.

Included in property and equipment, net at June 30, 2012 and 2011 are $546 and $1,431 of net property and equipment owned by the Hospital and used by TriHealth, Inc. The depreciation associated with this property and equipment is recorded by the Hospital and allocated back to TriHealth, Inc. based on estimated usage.

(Dollar Amounts in Thousands)

G. Leases

On March 1, 2012, the Hospital entered into a building lease agreement with Duke Realty-Butler County Surgical, LLC, to lease 100% of the square footage of all three facilities owned by Prexus Health Partners, LLC. The initial lease term is fifteen years, with the option to extend the initial lease term for up to six additional periods of five years each. Lease payments are defined with an imputed interest rate of 2.5%. The Hospital has determined that this lease meets the criteria for capital lease accounting treatment.

The capital lease obligation is $21,923, excluding short-term portion of $1,094 which is recorded in accounts payable and accrued expenses at June 30, 2012. Assets under capital lease are included in property and equipment on the balance sheet of $23,459, less accumulated depreciation of $391 as of June 30, 2012. As a result of the capital lease being a non-cash transaction, it is excluded from the consolidated statement of cash flow.

The future minimum payments of the Hospital's capital lease obligation based on scheduled maturity is as follows:

2013	$ 1,657
2014	1,690
2015	1,724
2016	1,758
2017	1,793
Thereafter	19,110
Total minimum payments	27,732
Less amounts representing interest	(4,715)
Present value of minimum lease payments	23,017
Less current portion	1,094
	$ 21,923

Total rental expense under all operating leases for the years ended June 30, 2012 and 2011 was $7,002 and $6,456, respectively.

(Dollar Amounts in Thousands)

H. Long-Term Debt

All of the Hospital's long-term debt is in the form of notes payable to Catholic Health Initiatives (CHI). CHI is the parent of the Partner and a tax-exempt Colorado corporation sponsored by a lay-religious partnership, calling on other Catholic sponsors and systems to unite to ensure the future of Catholic health care. The Hospital participates in a unified CHI credit governed agreement under a Capital Obligation Document (COD). Under the COD, CHI is the sole obligor on all debt. Debt under the COD is evidenced by a promissory note between the Hospital and CHI, which include monthly installments of interest and may be repaid in advance without penalty. The Hospital is only responsible for debt evidenced under the executed promissory notes as of June 30, 2012. The Hospital is defined as a designated affiliate under the COD and has agreed to certain financial and nonfinancial covenants. The Hospital was in compliance with all covenants at June 30, 2012 and 2011.

The following is a summary of long-term debt as of June 30:

	2012	2011
Note payable to CHI (Phase II), due 2029	**$ 125,671**	$ 130,110
Note payable to CHI (Project Fund), due 2017	**11,828**	14,125
Note payable to CHI (Phase I), due 2026	**7,054**	7,415
Note payable to CHI (2001 Refinance), due 2022	**55,920**	60,440
	200,473	212,090
Less current portion of long-term debt	**12,198**	11,617
	$ 188,275	$ 200,473

All of the notes payable to CHI are variable-rate debt with historical interest rate of 4.75% consistently throughout 2012 (4.75% at June 30, 2012) ranging from 4.33% to 5.00% in 2011 (4.33% at June 30, 2011). The variable-rate associated with the notes payable to CHI is based on a blended rate of the underlying fixed and variable-rate external debt held by CHI.

(Dollar Amounts in Thousands)

H. Long-Term Debt (continued)

A summary of scheduled principal payments on long-term debt for the next five years and thereafter is as follows:

	Amounts Due
Year Ending June 30	
2013	$ 12,198
2014	12,808
2015	13,449
2016	14,121
2017	13,325
Thereafter	134,572
	$ 200,473

Interest paid on long-term debt was $9,686 and $10,158 for the years ended June 30, 2012 and 2011, respectively.

The Hospital maintains a line of credit with Fifth Third Bank with available credit of $10,000 renewed annually. No draws were made on the line of credit during fiscal year 2012 or 2011 and no amounts are outstanding as of June 30, 2012 or 2011. Subsequent to the year ended June 30, 2012, various draws were made on the line of credit for short-term cash need that were repaid shortly after the respective draws were made.

I. Functional Expenses

The Hospital provides health care services to individuals within the tri-state area including inpatient, outpatient, ambulatory, long-term care, and community-based services. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services, and other functions that are supported centrally for all of the Hospital. The following summarizes the expenses related to providing those services for the year ended June 30:

	2012	2011
Health care services	**$ 463,144**	$ 450,822
Support services	**68,421**	57,797
	$ 531,565	$ 508,619

J. Retirement Plan

The Hospital has a qualified noncontributory defined benefit retirement plan (the Plan) covering substantially all Bethesda Hospital, Inc. employees and those of certain other subsidiaries of Bethesda Hospital, Inc. and Bethesda, Inc. Under the Plan, employee benefits are based on employees' years of service, retirement age, and compensation. Vesting occurs over a three-year period. Annual contributions are made to the Plan sufficient to satisfy legal funding requirements.

The Hospital recognizes the funded status (that is, the difference between the fair value of plan assets and the projected benefit obligations) of the Plan in the consolidated balance sheets, with a corresponding adjustment to unrestricted net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension expense in the same periods will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic pension expense on the same basis as the amounts recognized in unrestricted net assets.

J. Retirement Plan (continued)

Several amendments to the defined benefit pension plan went into effect on January 1, 2011. The Plan now requires each new employee to complete 1,000 hours during the first Plan year in which he or she is hired in order to become a participant in the Plan effective as of their hire date. The previous requirement was 800 hours. This same increase from 800 to 1,000 hours worked per year is also now required in order to receive a year of service credit towards vesting and to accumulate any credits to be used in calculating an annual accrual under the Plan.

The calculation of the number of credits earned each year was amended as well. The calculation is still based on a combination of the employees' age and years of service, but the number of credits earned at each level was reduced. However, employees are now eligible to participate in the TriHealth, Inc. 401(k) Plan (the 401(k) Plan) where employees that are paid at least 1,000 hours in the calendar year are eligible for an employer match in the 401(k) Plan equal to 1.8% of their contributions.

(Dollar Amounts in Thousands)

J. Retirement Plan (continued)

A summary of the changes in the benefit obligation, fair value of plan assets and funded status of the Plan for the year ended June 30 is as follows:

	2012	2011
Accumulated benefit obligation	**$ 241,606**	$ 223,430
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 239,976**	$ 232,382
Service cost	**6,361**	8,990
Interest cost	**11,905**	11,229
Actuarial losses (gains)	**7,015**	(1,750)
Benefits paid	**(13,307)**	(10,875)
Benefit obligation at end of year	**251,950**	239,976
Change in plan assets:		
Fair value of plan assets at beginning of year	**205,675**	168,384
Actual (loss) return on plan assets	**(8,742)**	30,066
Hospital contributions	**10,200**	18,100
Benefits paid	**(13,307)**	(10,875)
Fair value of plan assets at end of year	**193,826**	205,675
Funded status and pension obligation	**$ 58,124**	$ 34,301

(Dollar Amounts in Thousands)

J. Retirement Plan (continued)

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic pension expense as of June 30:

	2012	2011
Net prior service cost	**$ 665**	$ 786
Net actuarial loss	**120,639**	94,232
	$ 121,304	$ 95,018

The net prior service cost and net actuarial loss included in unrestricted net assets that is expected to be recognized in net periodic pension expense during the fiscal year ended June 30, 2013 is $121 and $7,728 respectively.

The following amounts related to plan activity have been recognized as (decrease) increase in unrestricted net assets for the year ended June 30:

	2012	2011
Amortization of net prior service cost	**$ 121**	$ 440
Net actuarial (loss) gain	**(32,593)**	15,811
Amortization of net actuarial loss	**6,186**	5,941
	$ (26,286)	$ 22,192

(Dollar Amounts in Thousands)

J. Retirement Plan (continued)

A summary of the components of net periodic pension expense for the Plan, which is included in employee benefits expense in the consolidated statements of operations and changes in net assets for the year ended June 30, is as follows:

	2012	2011
Service cost	**$ 6,361**	$ 8,990
Interest cost	**11,905**	11,229
Expected return on plan assets	**(16,836)**	(16,005)
Amortization of net prior service cost	**121**	195
Settlement/curtailment expense	**–**	245
Amortization of net actuarial loss	**6,186**	5,941
	$ 7,737	$ 10,595

The following weighted-average assumptions were used to determine the benefit obligation as of June 30:

	2012	2011
Discount rate	**4.16%**	5.15%
Rate of compensation increase	**3.50% to 6.50%**	3.50% to 6.50%

The following weighted-average assumptions were used to determine net periodic pension expense for the year ended June 30:

	2012	2011
Discount rate	**5.15%**	5.00%
Expected return on plan assets	**8.00%**	8.25%
Rate of compensation increase	**3.50% to 6.50%**	3.50% to 6.50%

(Dollar Amounts in Thousands)

J. Retirement Plan (continued)

In selecting the expected return on plan assets, the Hospital considered historical returns as well as adherence to future asset allocations set forth in the Plan's investment policies. This basis is consistent with prior year.

The target and range asset allocations for the plan assets set forth in the Plan's investment policies, based on underlying investment securities, are as follows:

	Target	Range
Marketable debt securities	17.5%	12.5 – 22.5%
Marketable equity securities	50.0	45.0 – 55.0
Alternative investments	32.5	17.5 – 47.5

A summary of the fair value of plan assets as of June 30 is as follows:

	2012	2011
Cash and cash equivalents	**$ 1,842**	$ 20,286
Marketable equity securities:		
Domestic	**13,338**	14,540
Foreign	**8,371**	5,662
Mutual funds:		
Equity	**26,939**	29,496
Fixed income	**9,431**	9,889
Alternative investments:		
Hedge funds	**55,738**	54,822
Limited liability companies	**19,437**	20,469
Private equity funds	**19,106**	15,536
Commingled funds	**6,319**	3,347
Real estate investment trusts	**12,967**	10,330
Other limited partnerships	**20,338**	21,298
	$ 193,826	$ 205,675

(Dollar Amounts in Thousands)

J. Retirement Plan (continued)

The plan assets are invested in a portfolio designed to preserve principal and obtain competitive investment returns with long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. Diversification is achieved by allocating assets to various asset classes and investment styles, retaining multiple investment managers with complementary philosophies, styles, and approaches. The use of leverage is prohibited except as specifically directed in the alternative investment allocation.

The following is a summary of plan assets as of June 30, 2012 measured at fair value on a recurring basis based on the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Plan assets				
Cash and cash equivalents	$ 1,842	$ –	$ –	$ 1,842
Marketable equity securities:				
Domestic	13,338	–	–	13,338
Foreign	8,371	–	–	8,371
Mutual funds:				
Equity	26,939	–	–	26,939
Fixed income	9,431	–	–	9,431
Alternative investments:				
Hedge funds	–	55,738	–	55,738
Limited liability companies	–	19,437	–	19,437
Private equity funds	–	–	19,106	19,106
Commingled funds	–	6,319	–	6,319
Real estate investment trusts	–	–	12,967	12,967
Other limited partnerships	–	14,680	5,658	20,338
Total plan assets at fair value	$ 59,921	$ 96,174	$ 37,731	$ 193,826

(Dollar Amounts in Thousands)

J. Retirement Plan (continued)

The following is a summary of plan assets as of June 30, 2011 measured at fair value on a recurring basis based on the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Plan assets				
Cash and cash equivalents	$ 20,286	$ –	$ –	$ 20,286
Marketable equity securities:				
Domestic	14,540	–	–	14,540
Foreign	5,662	–	–	5,662
Mutual funds:				
Equity	29,496	–	–	29,496
Fixed income	9,889	–	–	9,889
Alternative investments:				
Hedge funds	–	45,709	9,113	54,822
Limited liability companies	–	20,469	–	20,469
Private equity funds	–	–	15,536	15,536
Commingled funds	–	3,347	–	3,347
Real estate investment trusts	–	–	10,330	10,330
Other limited partnerships	–	16,923	4,375	21,298
Total plan assets at fair value	$ 79,873	$ 86,448	$ 39,354	$ 205,675

Fair value methodologies for cash and cash equivalents, and marketable equity securities included Level 1 and Level 2 are consistent with the inputs described in Note E.

Mutual funds are valued using quoted market prices, with reasonable levels of price transparency. Such instruments are generally classified within Level 1 of the fair value hierarchy. The Hospital does not adjust the quoted market price for such financial instruments.

J. Retirement Plan (continued)

Following is the summary of the inputs and valuation techniques as of June 30, 2012 and 2011 used for valuing Level 2 securities in the plan assets:

Securities	Input	Valuation Technique
Hedge funds	NAV	Market/Income
Limited liability companies	NAV	Market/Income
Commingled funds	NAV	Market/Income
Other limited partnerships	NAV	Market/Income

Alternative investments are 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 investments at June 30, 2012 and 2011 based on the fact that the alternative investments are audited and accounted for at fair value by the administrators of the respective alternative investments. If the Hospital has the ability to redeem its investment in the respective alternative investment at the NAV with no significant restrictions on the redemption at the consolidated balance, the Hospital has categorized the alternative investment as a Level 2 measurement in the fair value hierarchy. If the Hospital does not have the ability to redeem the alternative investment at NAV due to significant restrictions, the Hospital has categorized the alternative investment as a Level 3 measurement.

Following is the summary of the inputs and valuation techniques as of June 30, 2012 and 2011 used for valuing Level 3 securities in the plan assets:

Securities	Input	Valuation Technique
Hedge funds	NAV	Market/Income
Private equity funds	NAV	Income
Real estate investment trusts	NAV	Income
Other limited partnerships	NAV	Market/Income

(Dollar Amounts in Thousands)

J. Retirement Plan (continued)

For Level 3 securities, when observable prices are not available, the investment manager might use one or more valuation techniques such as the market approach or the income approach for which sufficient and reliable data is available. Within Level 3, the use of the market approach generally consists of using either the guideline company method or similar transaction method while the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

The following table summarizes the activity related to plan assets having fair value measurements based on significant unobservable inputs (Level 3):

	Hedge Funds	Private Equity Funds	Real Estate Investment Trusts	Other Limited Partnerships
Fair value at June 30, 2010	$ 1,979	$ 12,731	$ 7,351	$ –
Purchases	7,000	2,449	3,755	4,078
Dividend reinvestment	–	–	288	–
Sales/settlement	–	(1,209)	(453)	(105)
Unrealized gains	1,368	2,300	753	525
Unrealized losses	(1,234)	(735)	(1,364)	(123)
Fair value at June 30, 2011	9,113	15,536	10,330	4,375
Purchases	**–**	**3,301**	**2,607**	**2,036**
Sales/settlement	**–**	**(1,378)**	**(660)**	**(892)**
Transfers to Level 2	**(8,420)**	**–**	**–**	**–**
Unrealized gains	**1,293**	**3,377**	**1,114**	**746**
Unrealized losses	**(1,986)**	**(1,730)**	**(424)**	**(607)**
Fair value at June 30, 2012	**$ –**	**$ 19,106**	**$ 12,967**	**$ 5,658**

The Plan's policy for determining when transfers between levels are recognized is at the end of the reporting period. Transfers out of Level 3 noted within the hedge funds asset class are a result of the expiration of certain lock-up provisions during 2012. As the Plan now has the ability to redeem these investments at NAV with no significant restrictions at the consolidated balance sheet date, the Plan has now categorized these alternative investments as a Level 2 measurement in the fair value hierarchy at June 30, 2012.

(Dollar Amounts in Thousands)

J. Retirement Plan (continued)

The Plan has committed capital yet to be called of $8,502 at June 30, 2012 to private equity funds over the next one to three years.

The Plan participates in securities lending arrangements with its custodian whereby the Plan lends a portion of its marketable securities to various brokers or financial institutions in exchange for cash or non-cash collateral for the marketable securities loaned. Cash collateral received in connection with the securities lending arrangements is invested in a short-term pooled fund (Pooled Fund) maintained by the Plan's custodian (US Bank). The Pooled Fund, which is structured similar to that of a money market financial instrument, consists primarily of short-term marketable debt securities and cash equivalents, which are stated at fair value, as determined by the administrator of the Pooled Fund, based on readily determinable market values of the underlying securities. The fair value of cash collateral held for loaned marketable securities and the obligation to return the collateral is shown net in plan assets. The Hospital is required to fund any decline in the underlying market value of invested collateral below the initial amount provided by the various brokers or financial institutions. At June 30, 2012 and 2011, the fair value of the collateral was $990 and $1,083, respectively. At June 30, 2012 and 2011, the obligation to return the collateral was $1,462 and $1,563, respectively. Subsequent to June 30, 2012, the Plan has terminated its securities lending arrangements.

The expected benefits to be paid to the Plan participants and beneficiaries are as follows:

	Estimated Payments
Year Ending June 30	
2013	$ 19,945
2014	17,078
2015	18,867
2016	18,710
2017	19,867
2018 – 2022	111,813

The Hospital expects to contribute $16,600 to the Plan in 2013.

K. Self-Insured Liabilities

Bethesda, Inc. has a self-insurance program for the primary layer of professional liability coverage. Self-insurance limits with respect to the primary layer of professional liability coverage are $3,000 per occurrence and $12,000 in the annual aggregate. Insurance in excess of the primary layer, including excess liability coverage, is provided by commercial insurance carriers on a claims-made basis. In addition, management maintains current claims-made insurance coverage to cover any known incidents that may be asserted.

The consolidated financial statements include an actuarially determined accrual for asserted and reported claims and incurred but not reported claims which may result from past services provided to patients, discounted at a rate of 1.25% and 2.50% as of June 30, 2012 and 2011. The actuarially determined accrual for the Hospital's professional liability coverage is an estimate. The possibility exists that the estimate will change by a material amount in the future. The Hospital recorded a decrease to insurance expense of $4,326 in 2012 due to lower claim activities and improved claim resolution. The (income) expense for the Hospital's professional liability coverage amounted to ($1,928) and $4,248 for the years ended June 30, 2012 and 2011, respectively.

In accordance with ASU 2010-24 discussed in Note A, at June 30, 2012 the Hospital recorded a liability and estimated recoveries of approximately $5,800 related to excess liability coverage which was included in other long-term assets.

Bethesda, Inc. and subsidiaries contribute amounts to a trust fund to provide for the actuarially determined liability under the primary layer of professional liability coverage. The contributed assets are held in an irrevocable trust for future professional liability claims.

Certain Hospital entities are self-insured for employee health benefits. Employee health benefits are paid through a local claims processor based on plan coverage determined by the Hospital. An estimated liability of $3,914 and $3,437 for outstanding and incurred but not reported claims has been included in compensation and benefits as of June 30, 2012 and 2011, respectively, and is believed by management to be adequate for the cost of potential losses.

(Dollar Amounts in Thousands)

K. Self-Insured Liabilities (continued)

Certain Hospital entities are self-insured for workers' compensation coverage. An estimated liability for outstanding and incurred but not reported workers' compensation claims of $4,051 and $3,769 has been included in other long-term liabilities as of June 30, 2012 and 2011, respectively. The discount rate used to compute the workers' compensation liability as of June 30, 2012 and 2011 was 1.25% and 2.50%, respectively. Management believes this amount to be adequate for the cost of potential losses. The Hospital also purchases commercial excess insurance to limit its self-insurance exposure.

L. Related-Party Transactions

The Hospital enters into various related-party transactions in the ordinary course of business with Bethesda, Inc., certain other Bethesda, Inc. subsidiaries, and the Partner. Information related to the annual settlement with the Partner under the network affiliation agreement is disclosed in Note M. All other significant activity that occurs in the normal course of business with Bethesda, Inc., other Bethesda, Inc. subsidiaries, and the Partner are disclosed in this note.

The following is a summary of the net amounts due from (to) related organizations, net as of June 30:

	2012	2011
Bethesda Foundation, Inc.	**$ 12,520**	$ 6,982
The Good Samaritan Hospital of Cincinnati, Ohio	**2,380**	2,532
Bethesda Healthcare, Inc.	**15,054**	15,738
TriHealth, Inc.	**(1,670)**	753
Bethesda, Inc.	**2,403**	(86)
	30,687	25,919
Less current portion of due from related organizations	**710**	3,284
	$ 29,977	$ 22,635

L. Related-Party Transactions (continued)

Bethesda Foundation, Inc. (the Foundation) is a wholly owned subsidiary of Bethesda, Inc., which engages in fundraising activities and invests the resulting assets to support the operations of the Hospital, as well as other related entities. The receivable from the Foundation represents amounts held by the Foundation on behalf of the Hospital. The Foundation also charges an administrative fee to Hospice for fundraising services. The amount recognized as other revenue in the consolidated statements of operations and changes in net assets by the Hospital related to these services was $500 and $382 for the years ended June 30, 2012 and 2011, respectively.

The amount due from the Partner represents an accumulation of overhead costs, payroll, accounts payable, and other centrally managed processes creating a corresponding receivable that is received periodically by a transfer of cash, and is short term in nature.

The amount due from Bethesda Healthcare, Inc. represents an accumulation of operating losses and capital investments as well as notes payable paid by the Hospital on behalf of Bethesda Healthcare, Inc. to the Partner. Bethesda, Inc. has guaranteed the payment of the amounts due to the Hospital from Bethesda Healthcare, Inc.

The amount due from TriHealth, Inc. is a result of the timing of the Hospital's reimbursement to TriHealth, Inc. as the Hospital's payroll and accounts payable are processed by TriHealth administrative support services.

The amount due from (to) Bethesda, Inc. is a result of the timing of the Hospital's disbursement to Bethesda Inc. for other operating expenses. A $10,000 capital transfer was made from the Hospital to Bethesda, Inc. for both years ended June 30, 2012 and 2011.

(Dollar Amounts in Thousands)

L. Related-Party Transactions (continued)

Due to the Hospital's relationship with the Foundation, the Hospital is the principal beneficiary of the Foundation, the following summary financial information of the Foundation has been included. The following is a summary of the Foundation's assets, liabilities, and net assets as of June 30:

	2012	2011
Investments	**$ 93,537**	$ 95,018
Other assets	**2,712**	1,036
Total assets	**$ 96,249**	$ 96,054
Liabilities	**$ 13,236**	$ 7,899
Net assets	**83,013**	88,155
Total liabilities and net assets	**$ 96,249**	$ 96,054

The following is a summary of the Foundation's results of operations and changes in net assets for the year ended June 30:

	2012	2011
Unrestricted (loss) revenue	**$ (1,502)**	$ 16,045
Expenses:		
Support to related parties	**1,232**	2,003
Other	**2,390**	2,508
Total expenses	**3,622**	4,511
Excess of unrestricted (expenses over revenue) revenue over expenses before transfer to related party	**(5,124)**	11,534
Transfer of property and equipment, net to related party	**–**	(986)
Excess of unrestricted (expenses over revenue) revenue over expenses	**(5,124)**	10,548
Other changes in net assets, net	**(18)**	112
(Decrease) increase in net assets	**(5,142)**	10,660
Net assets at beginning of year	**88,155**	77,495
Net assets at end of year	**$ 83,013**	$ 88,155

(Dollar Amounts in Thousands)

L. Related-Party Transactions (continued)

Liabilities of the Foundation, at June 30, 2012 and 2011 include $12,520 and $6,982, respectively, due to the Hospital.

M. Network Affiliation Agreement

Under the agreement described in Note A, the Hospital recognized expense related to the sharing of the excess of revenue over expenses of the Hospital and the Partner for the years ended June 30, 2012 and 2011. The revenue share is computed on patient and nonpatient revenue, only for entities defined in the network affiliation agreement and the resulting impact is recorded by the Hospital. The network affiliation agreement excludes changes in net unrealized losses and gains on investments designated as trading.

Expense from network affiliation and the network affiliation payable related to the sharing of excess of revenue over expenses between the Hospital and the Partner for the year ended June 30 are as follows:

	2012	**2011**
Operating loss from network affiliation	**$ (3,765)**	$ (7,811)
Nonoperating gain (loss) from network affiliation	**3,732**	(3,326)
	$ (33)	$ (11,137)

The network affiliation agreement requires the network affiliation payable or receivable be settled within 90 days after the close of the year. During 2012, $11,137 was paid to the Partner from the Hospital related to the 2011 network affiliation agreement. During 2011, $4,629 was paid by the Hospital to the Partner related to the 2010 network affiliation agreement.

(Dollar Amounts in Thousands)

N. Investments in Unconsolidated Organizations

The Hospital maintains an ownership percentage of 50% or less in various joint ventures and other companies that do not require consolidation. These investments are accounted for using the equity method of accounting. The following is a summary of the investments in unconsolidated organizations as of June 30:

	2012	2011
TriHealth, Inc.	**$ –**	$ 3,005
Vantage Oncology Treatment Centers – Ohio, LLC	**4,673**	–
Other	**1,528**	1,558
	$ 6,201	$ 4,563

The following is a summary of the (loss) income from unconsolidated organizations as of June 30:

	2012	2011
TriHealth, Inc.	**$ (18,936)**	$ (10,275)
Vantage Oncology Treatment Centers – Ohio, LLC	**2,495**	–
Other	**410**	379
	$ (16,031)	$ (9,896)

The Hospital entered into the Vantage Oncology Treatment Centers-Ohio, LLC joint venture during the current year. The Hospital owns 25% of Vantage Oncology Treatment Centers-Ohio, LLC. The Hospital recognized a gain of $1,554 included in loss from unconsolidated organizations in 2012 related to the transfer of certain assets to form vantage Oncology Treatment Centers-Ohio, LLC.

TriHealth, Inc. (TriHealth) is a joint venture equally owned by the Hospital and the Partner. TriHealth was formed to provide a comprehensive and integrated provider base to optimize the health status of the community. TriHealth operates various health care-related businesses, including physician practices, property management, and other physician support services companies. In addition, TriHealth provides administrative support services for both the Hospital and the Partner. Administrative support services include general administration, information systems, finance, human resources, and other general support services. TriHealth cash flows are funded equally by the Hospital and the Partner. The Hospital and the Partner each contributed cash of $16,150 and $21,000 for the years ended June 30, 2012 and 2011, respectively, to TriHealth.

(Dollar Amounts in Thousands)

N. Investments in Unconsolidated Organizations (continued)

The following administrative support services costs were allocated by TriHealth to the Hospital and recorded as expense for the years ended June 30:

	2012	2011
Salaries and wages	**$ 28,982**	$ 25,381
Employee benefits	**9,658**	9,621
Purchased services	**15,913**	11,892
Depreciation and amortization	**3,267**	3,404
Supplies and other	**10,601**	7,499
	$ 68,421	$ 57,797

The following is a summary of TriHealth's assets, liabilities, and net assets as of June 30 (from its unaudited consolidated financial statements):

	2012	2011
Assets		
Cash and cash equivalents	**$ 2,789**	$ 7,908
Net patient accounts receivable	**15,360**	14,154
Property and equipment, net	**85,987**	36,191
Due from related organizations	**11,218**	22,389
Goodwill and other intangible assets, net	**14,605**	11,648
Other assets	**2,458**	3,201
Total assets	**$ 132,417**	$ 95,491
Liabilities and net assets		
Compensation and benefits	**$ 48,792**	$ 41,747
Accounts payable and accrued expenses	**38,095**	18,006
Pension liability	**37,583**	20,855
Other liabilities	**7,947**	8,109
Total liabilities	**132,417**	88,717
Net assets	**–**	6,774
Total liabilities and net assets	**$ 132,417**	$ 95,491

(Dollar Amounts in Thousands)

N. Investments in Unconsolidated Organizations (continued)

The following is a summary of TriHealth's results of operations and changes in net assets for the year ended June 30 (from its unaudited consolidated financial statements):

	2012	2011
Revenue:		
Net patient service revenue	**$ 192,619**	$ 166,302
Other revenue, net	**30,618**	31,525
Total revenue	**223,237**	197,827
Expenses:		
Salaries and wages	**220,092**	183,849
Employee benefits	**41,755**	38,177
Purchased services	**40,667**	30,159
Supplies	**34,660**	32,810
Depreciation and amortization	**10,071**	9,493
Rental and maintenance	**30,747**	22,464
Utilities	**7,846**	7,325
Insurance	**3,615**	2,546
Other	**11,291**	9,510
Shared service allocation	**(139,635)**	(117,954)
Total expenses	**261,109**	218,379
Loss from operations	**(37,872)**	(20,552)
Non-operating (loss) income:		
Investment (loss) income	**(1)**	3
Total non-operating (loss) income	**(1)**	3
Excess of expenses over revenue	**(37,873)**	(20,549)
Equity contributions	**47,583**	19,580
Change in plan assets and benefit obligation of pension plan	**(16,627)**	6,977
Other changes in net assets, net	**143**	766
(Decrease) increase in net assets	**(6,774)**	6,774
Net assets at beginning of year	**6,774**	–
Net assets at end of year	**$ –**	$ 6,774

(Dollar Amounts in Thousands)

N. Investments in Unconsolidated Organizations (continued)

TriHealth, Inc. maintains a noncontributory defined benefit retirement plan (the TriHealth Plan) and certain associated TriHealth Plan expense is recorded. The following is a summary of the funded status of the TriHealth Plan at June 30:

	2012	2011
Benefit obligation	**$ 119,258**	$ 104,662
Fair value of plan assets	**81,675**	83,807
Underfunded status	**$ (37,583)**	$ (20,855)

The Board of Trustees of TriHealth approved a revocable commitment for up to $9,670 nonrecourse loan over seven years to Uptown Consortium, Inc., unrelated entity of the Hospital. The Uptown Consortium, Inc. is a nonprofit community development corporation dedicated to the human, social, economic, and physical improvement of Uptown Cincinnati. These funds will be used to invest in commercial and residential projects in the uptown area. TriHealth has provided $9,240 as of June 30, 2012 and 2011, respectively, of funding in relation to this commitment.

O. Subsequent Events

The Hospital has evaluated and disclosed subsequent events through September 28, 2012, which is the date the consolidated financial statements were issued and made available. No recognized or non-recognized subsequent events were identified for recognition or disclosure in the consolidated financial statements.

Supplementary Information

Ernst & Young LLP
1900 Scripps Center
312 Walnut Street
Cincinnati, OH 45202

Tel: +1 513 612 1400
Fax: +1 513 612 1730
www.ey.com

Report of Independent Auditors on Supplementary Information

The Board of Trustees
of Bethesda Hospital, Inc. and Subsidiaries

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

Ernst + Young LLP

September 28, 2012

1204-1346957

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Balance Sheet

June 30, 2012
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass-ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$ –	$ (466)	$ 67	$ 10,191	$ –	$ 9,792
Net patient accounts receivable, less allowance of $21,869	–	259	5,701	31,339	–	37,299
Other accounts (payable) receivable	(21)	–	–	2,085	–	2,064
Current portion of assets limited as to use	–	–	–	19,168	–	19,168
Inventories	–	–	–	1,969	–	1,969
Prepaid and other current assets	–	–	99	2,116	–	2,215
Current portion of due from (to) related organizations, net	544	54,820	4,827	(59,481)	–	710
Total current assets	523	54,613	10,694	7,387	–	73,217
Assets limited as to use and investments:						
Assets limited as to use:						
Internally designated for capital and other funds	–	–	9,148	308,414	–	317,562
Restricted by donors	–	–	–	3,155	–	3,155
Trustee-held funds under professional liability funding arrangement	–	–	–	20,637	–	20,637
Investments	–	–	–	23,797	–	23,797
Total assets limited as to use and investments	–	–	9,148	356,003	–	365,151
Property and equipment, net	22,282	28	8,719	234,926	–	265,955
Investments in unconsolidated organizations	–	–	–	11,274	(5,073)	6,201
Goodwill and identifiable intangible assets	–	–	–	19,353	–	19,353
Due from related organizations	–	–	1,644	28,333	–	29,977
Other long-term assets	–	–	598	5,814	(598)	5,814
Total assets	$ 22,805	$ 54,641	$ 30,803	$ 663,090	$ (5,671)	$ 765,668

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Balance Sheet

June 30, 2012
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass-ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Liabilities and net assets						
Current liabilities:						
Compensation and benefits	$ –	$ 32	$ 1,518	$ 20,893	$ –	$ 22,443
Third-party liabilities	–	–	–	4,687	–	4,687
Accounts payable and accrued expenses	934	5,461	1,640	14,529	–	22,564
Network affiliation payable	–	–	–	33	–	33
Current portion of long-term debt	–	–	–	12,198	–	12,198
Total current liabilities	934	5,493	3,158	52,340	–	61,925
Accrued professional liability	–	–	598	22,282	(598)	22,282
Pension obligation	–	–	–	58,124	–	58,124
Long-term compensation and benefits and other long-term liabilities	1,920	3,801	–	15,168	–	20,889
Capital lease obligation	–	–	–	21,923	–	21,923
Long-term debt	–	–	–	188,275	–	188,275
Total liabilities	2,854	9,294	3,756	358,112	(598)	373,418
Net assets:						
Unrestricted	19,951	45,347	25,282	294,412	(4,952)	380,040
Temporarily restricted	–	–	1,765	10,566	(121)	12,210
Total net assets	19,951	45,347	27,047	304,978	(5,073)	392,250
Total liabilities and net assets	$ 22,805	$ 54,641	$ 30,803	$ 663,090	$ (5,671)	$ 765,668

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Balance Sheet

June 30, 2011
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass-ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$ –	$ (110)	$ 10,217	$ 8,528	$ –	$ 18,635
Net patient accounts receivable, less allowance of $19,153	–	173	5,506	30,819	–	36,498
Other accounts receivable	7	–	–	1,308	(154)	1,161
Current portion of assets limited as to use	–	–	–	22,143	–	22,143
Inventories	–	–	–	1,731	–	1,731
Prepaid and other current assets	–	–	27	2,390	–	2,417
Current portion of due (to) from related organizations, net	(2,188)	47,536	(6,098)	(35,966)	–	3,284
Total current assets	(2,181)	47,599	9,652	30,953	(154)	85,869
Assets limited as to use and investments:						
Assets limited as to use:						
Internally designated for capital and other funds	–	–	9,333	320,570	–	329,903
Restricted by donors	–	–	–	2,992	–	2,992
Trustee-held funds under professional liability funding arrangement	–	–	–	24,041	–	24,041
Investments	–	–	–	30,419	–	30,419
Total assets limited as to use and investments	–	–	9,333	378,022	–	387,355
Property and equipment, net	23,315	37	8,368	221,577	–	253,297
Investments in unconsolidated organizations	–	–	–	9,848	(5,285)	4,563
Due from related organizations	–	–	1,169	21,466	–	22,635
Other long-term assets	–	–	–	100	–	100
Total assets	$ 21,134	$ 47,636	$ 28,522	$661,966	$ (5,439)	$ 753,819

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Balance Sheet

June 30, 2011
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass-ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Liabilities and net assets						
Current liabilities:						
Compensation and benefits	$ –	$ –	$ 1,355	$ 18,142	$ –	$ 19,497
Third-party liabilities	–	–	–	6,982	–	6,982
Accounts payable and accrued expenses	924	5,878	2,023	17,312	–	26,137
Network affiliation payable	–	–	–	11,137	–	11,137
Current portion of long-term debt	–	–	–	11,617	–	11,617
Total current liabilities	924	5,878	3,378	65,190	–	75,370
Accrued professional liability	–	–	–	18,758	–	18,758
Pension obligation	–	–	–	34,301	–	34,301
Long-term compensation and benefits and other long-term liabilities	2,176	2,111	–	13,706	(155)	17,838
Long-term debt	–	–	–	200,473	–	200,473
Total liabilities	3,100	7,989	3,378	332,428	(155)	346,740
Net assets:						
Unrestricted	18,034	39,647	23,854	321,283	(5,163)	397,655
Temporarily restricted	–	–	1,290	8,255	(121)	9,424
Total net assets	18,034	39,647	25,144	329,538	(5,284)	407,079
Total liabilities and net assets	$ 21,134	$ 47,636	$ 28,522	$ 661,966	$ (5,439)	$ 753,819

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2012
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass-ifications/ Elimination	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Revenue						
Net patient service revenue:						
Acute inpatient	$ –	$ –	$ 9,870	$ 273,909	$ (6,877)	$ 276,902
Outpatient	–	3,509	31,855	222,717	(3,698)	254,383
Other patient	–	34,324	–	–	(739)	33,585
Total net patient service revenue	–	37,833	41,725	496,626	(11,314)	564,870
Nonpatient (loss) revenue:						
Loss from unconsolidated organizations	–	–	–	(16,031)	–	(16,031)
Operating loss from network affiliation	–	–	–	(3,765)	–	(3,765)
Other revenue, net	6,108	1,301	7,369	10,391	(8,412)	16,757
Total revenue	6,108	39,134	49,094	487,221	(19,726)	561,831
Expenses						
Salaries and wages	397	8,921	26,876	145,250	(6,583)	174,861
Employee benefits	97	2,044	6,403	43,826	(1,864)	50,506
Medical professional fees	–	2,673	333	1,582	(155)	4,433
Purchased services	321	11,246	2,604	15,384	(1,551)	28,004
Supplies	476	4,991	4,272	93,082	(3,459)	99,362
Bad debts	33	170	90	44,192	–	44,485
Utilities	646	203	591	3,575	–	5,015
Insurance	–	50	–	(1,860)	(10)	(1,820)
Rental, leases, and maintenance	3	732	3,728	11,845	(2,493)	13,815
Depreciation and amortization	1,788	151	777	19,957	–	22,673
Interest	139	–	(1)	9,546	–	9,684
Shared service allocation	–	–	–	68,421	–	68,421
Other, net	292	2,253	1,808	11,384	(3,611)	12,126
Total operating expenses	4,192	33,434	47,481	466,184	(19,726)	531,565
Income from operations	1,916	5,700	1,613	21,037	–	30,266
Nonoperating (loss) income:						
Income from network affiliation	–	–	–	3,732	–	3,732
Investment income (loss)	1	–	(183)	(7,169)	44	(7,307)
Total nonoperating income (loss)	1	–	(183)	(3,437)	44	(3,575)
Excess of revenue over expenses	1,917	5,700	1,430	17,600	44	26,691
Change in plan assets and benefit obligation of pension plan	–	–	–	(26,286)	–	(26,286)
Change in funded status of TriHealth, Inc. pension plan	–	–	–	(8,313)	–	(8,313)
Transfer to Bethesda, Inc.	–	–	–	(10,000)	–	(10,000)
Other changes in net assets, net	–	–	473	2,439	167	3,079
Increase (decrease) in net assets	1,917	5,700	1,903	(24,560)	211	(14,829)
Net assets at beginning of year	18,034	39,647	25,144	329,538	(5,284)	407,079
Net assets at end of year	$ 19,951	$ 45,347	$ 27,047	$ 304,978	$ (5,073)	$ 392,250

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2011
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass-ifications/ Elimination	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Revenue						
Net patient service revenue:						
Acute inpatient	$ –	$ –	$ 9,243	$ 256,843	$ (4,987)	$ 261,099
Outpatient	–	3,068	30,029	205,043	767	238,907
Other patient	–	31,968	–	–	(599)	31,369
Total net patient service revenue	–	35,036	39,272	461,886	(4,819)	531,375
Nonpatient (loss) revenue:						
Loss from unconsolidated organizations	–	–	–	(9,896)	–	(9,896)
Operating loss from network affiliation	–	–	–	(7,811)	–	(7,811)
Other revenue, net	5,906	1,393	7,662	11,066	(7,596)	18,431
Total revenue	5,906	36,429	46,934	455,245	(12,415)	532,099
Expenses						
Salaries and wages	378	8,259	24,711	140,127	(4,966)	168,509
Employee benefits	96	2,142	5,996	40,690	(1,401)	47,523
Medical professional fees	–	2,062	316	1,532	(112)	3,798
Purchased services	354	9,766	2,823	12,959	(596)	25,306
Supplies	462	4,265	3,964	95,211	(2,975)	100,927
Bad debts	–	123	46	39,413	–	39,582
Utilities	724	218	629	3,843	–	5,414
Insurance	–	58	8	3,607	–	3,673
Rental, leases, and maintenance	3	721	3,428	10,877	(1,985)	13,044
Depreciation and amortization	1,599	147	695	20,175	–	22,616
Interest	179	–	11	9,979	(11)	10,158
Shared service allocation	–	–	–	57,797	–	57,797
Other, net	355	2,205	1,540	6,541	(369)	10,272
Total operating expenses	4,150	29,966	44,167	442,751	(12,415)	508,619
Income from operations	1,756	6,463	2,767	12,494	–	23,480
Nonoperating (loss) income:						
Loss from network affiliation	–	–	–	(3,326)	–	(3,326)
Investment income (loss)	1	–	1,429	50,899	(91)	52,238
Total nonoperating income	1	–	1,429	47,573	(91)	48,912
Excess of revenue over expenses	1,757	6,463	4,196	60,067	(91)	72,392
Change in plan assets and benefit obligation of pension plan	–	–	–	22,192	–	22,192
Change in funded status of TriHealth, Inc. pension plan	–	–	–	3,489	–	3,489
Transfer to Bethesda, Inc.	–	–	–	(10,000)	–	(10,000)
Other changes in net assets, net	10	–	220	2,520	91	2,841
Increase in net assets	1,767	6,463	4,416	78,268	–	90,914
Net assets at beginning of year	16,267	33,184	20,728	251,270	(5,284)	316,165
Net assets at end of year	$ 18,034	$ 39,647	$ 25,144	$ 329,538	$ (5,284)	$ 407,079

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 1 ,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011 OF ALEGENT HEALTH AND RELATED ENTITIES

[THIS PAGE INTENTIONALLY LEFT BLANK]

KPMG

ALEGENT HEALTH AND RELATED ENTITIES

Combined Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

[THIS PAGE INTENTIONALLY LEFT BLANK]

KPMG LLP
Suite 1501
222 South 15th Street
Omaha, NE 68102-1610

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

Independent Auditors' Report

The Board of Directors
Alegent Health and Related Entities:

We have audited the accompanying combined balance sheets of Alegent Health and related entities (Alegent) as of June 30, 2012 and 2011, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of Alegent's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of CHI Operating Investment Program Limited Partnership (a 7 percent owned limited partnership) at June 30, 2012. Alegent's investment in CHI Operating Investment Program Limited Partnership at June 30, 2012 was $385,010 and its equity in income of CHI Operating Investment Program Limited Partnership was $8,387 for the year ended June 30, 2012. The financial statements of CHI Operating Investment Program Limited Partnership were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CHI Operating Investment Program Limited Partnership for 2012, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Alegent's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors for 2012, the combined financial statements referred to above present fairly, in all material respects, the financial position of Alegent Health and related entities as of June 30, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information included in Exhibits I, II, and III is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

Omaha, Nebraska
September 13, 2012

ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2012 and 2011

(Amounts in thousands)

Assets		**2012**		**2011**
Current assets:				
Cash and cash equivalents	$	143,477	$	143,275
Patient accounts receivable, net of allowance for doubtful accounts of $79,358 in 2012 and $67,464 in 2011		113,438		103,139
Other accounts receivable		8,393		3,997
Inventories		16,943		19,580
Prepaid expenses		9,422		8,411
Total current assets		291,673		278,402
Assets limited as to use:				
Investment in CHI limited partnership		385,010		567,973
Other investments		253,310		10,077
Total assets limited as to use		638,320		578,050
Property and equipment:				
Land		21,732		20,130
Land improvements		31,354		29,903
Buildings and improvements		937,515		918,379
Equipment		540,388		541,570
Construction in progress		30,600		22,467
		1,561,589		1,532,449
Less accumulated depreciation		819,973		767,897
Property and equipment, net		741,616		764,552
Other assets:				
Property held for investment or future expansion		4,511		4,583
Investment in joint ventures		31,720		30,235
Other assets		864		148
Total other assets		37,095		34,966
Total assets	$	1,708,704	$	1,655,970

(Continued)

ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2012 and 2011

(Amounts in thousands)

Liabilities and Net Assets	**2012**	**2011**
Current liabilities:		
Current portion of long-term debt	$ 18,093	$ 18,588
Accounts payable	27,793	25,780
Accrued salaries, wages, and benefits	57,577	65,693
Accrued vacation and sick leave	38,099	34,983
Estimated third-party payor settlements	19,751	11,222
Other liabilities and accrued expenses	46,314	37,238
Total current liabilities	207,627	193,504
Long-term debt, net of current portion	433,166	436,978
Other long-term liabilities	8,206	9,387
Liability for pension benefits	47,683	32,162
Total liabilities	696,682	672,031
Net assets:		
Unrestricted	1,001,661	973,709
Temporarily restricted	6,523	6,392
Permanently restricted	3,838	3,838
Total net assets	1,012,022	983,939
Total liabilities and net assets	$ 1,708,704	$ 1,655,970

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Operations

Years ended June 30, 2012 and 2011

(Amounts in thousands)

	2012	2011
Unrestricted revenues, gains, and other support:		
Net patient service revenue	$ 1,015,524	$ 976,695
Cafeteria, building rental, sales to nonpatients, and other	65,145	46,270
Total revenues, gains, and other support	1,080,669	1,022,965
Operating expenses:		
Salaries and wages	362,359	361,110
Employee benefits	103,566	101,398
Supplies	150,127	151,662
Purchased services	90,566	81,163
Professional services	116,679	102,581
Provision for bad debts	69,155	58,937
Other expenses	31,020	35,234
Gain on sale of spine operations	—	(18,692)
Depreciation and amortization	84,403	88,688
Rentals and leases	18,408	18,743
Interest	19,439	18,611
Total operating expenses	1,045,722	999,435
Operating income	34,947	23,530
Other income (expense):		
Interest and investment income	2,852	506
Equity in income of investment limited partnership	8,387	87,022
Other, net	(403)	60
Total other income, net	10,836	87,588
Excess of revenues over expenses	45,783	111,118
Other changes in unrestricted net assets:		
Contributions for the purchase of property and equipment	79	458
Liability for pension benefits adjustment	(18,986)	11,666
Net assets released from restrictions for the purchase of property and equipment	990	—
Other	86	508
Increase in unrestricted net assets	$ 27,952	$ 123,750

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Changes in Net Assets

Years ended June 30, 2012 and 2011

(Amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance, June 30, 2010	$ 849,959	$ 5,596	$ 3,583	$ 859,138
Excess of revenues over expenses	111,118	—	—	111,118
Restricted interest and investment income, net	—	379	—	379
Contributions for the purchase of property and equipment	458	—	—	458
Net assets released from restrictions for use in operations	—	(787)	—	(787)
Change in unrealized gains and losses on investments, net	—	588	—	588
Contributions restricted by donor	—	800	255	1,055
Liability for pension benefits adjustment	11,666	—	—	11,666
Other	508	(184)	—	324
Increase in net assets	123,750	796	255	124,801
Balance, June 30, 2011	973,709	6,392	3,838	983,939
Excess of revenues over expenses	45,783	—	—	45,783
Restricted interest and investment income, net	—	224	—	224
Contributions for the purchase of property and equipment	79	—	—	79
Net assets released from restrictions for the purchase of property and equipment	990	(990)	—	—
Net assets released from restrictions for use in operations	—	(413)	—	(413)
Change in unrealized gains and losses on investments, net	—	(115)	—	(115)
Contributions restricted by donor	—	1,461	—	1,461
Liability for pension benefits adjustment	(18,986)	—	—	(18,986)
Other	86	(36)	—	50
Increase in net assets	27,952	131	—	28,083
Balance, June 30, 2012	$ 1,001,661	$ 6,523	$ 3,838	$ 1,012,022

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Amounts in thousands)

	2012	2011
Cash flows from operating activities:		
Increase in net assets	$ 28,083	$ 124,801
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	84,403	88,688
Provision for bad debts	69,155	58,937
Gain on sale of spine operations	—	(18,692)
Loss on impairment	6,652	7,097
Equity in income of investment limited partnership	(8,387)	(87,022)
Equity in income of joint ventures	(17,047)	(7,429)
Restricted interest and investment income	(224)	(379)
Contributions for the purchase of property and equipment	(79)	(458)
Change in unrealized gains and losses on investments, net	(2,505)	(588)
Contributions restricted by donor	(1,461)	(1,055)
Liability for pension benefits adjustment	18,986	(11,666)
Other changes in net assets	(50)	(324)
Decrease (increase) in assets:		
Receivables:		
Patients	(79,454)	(49,389)
Other	(4,396)	704
Inventories	2,637	345
Prepaid expenses	(1,011)	(1,257)
Increase (decrease) in liabilities:		
Accounts payable	1,512	(11,462)
Accrued salaries, wages, and benefits	(8,116)	6,647
Accrued vacation and sick leave	3,116	2,711
Estimated third-party payor settlements	8,529	5,904
Other liabilities and accrued expenses	9,076	2,366
Liability for pension benefits	(3,465)	(12,720)
Net cash provided by operating activities	105,954	95,759
Cash flows from investing activities:		
Purchases of assets limited as to use	(245,700)	(48,743)
Sales of assets limited as to use	193,731	53,320
Additions to property and equipment	(54,734)	(67,593)
Proceeds from sale of spine operations	—	21,943
Contributions to joint ventures	(1,627)	(13,485)
Distributions from joint ventures	17,189	6,092
Increase in other long-term assets and liabilities	766	2,952
Net cash used in investing activities	(90,375)	(45,514)
Cash flows from financing activities:		
Principal payments on long-term debt	(14,872)	(14,108)
Principal payments on capital leases	(2,245)	—
Proceeds from the issuance of long-term debt	5	37,963
Restricted contributions and interest	1,685	1,434
Other changes in net assets	50	324
Net cash provided by (used in) financing activities	(15,377)	25,613
Net increase in cash and cash equivalents	202	75,858
Cash and cash equivalents, beginning of year	143,275	67,417
Cash and cash equivalents, end of year	$ 143,477	$ 143,275
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 19,439	$ 18,611
Supplemental disclosure of noncash activity:		
Capital lease obligations entered into during the year	$ 12,805	$ —

See accompanying notes to combined financial statements.

(1) Organization

Alegent Health and related entities (Alegent) is a not-for-profit integrated health care delivery system. The combined financial statements of Alegent include the accounts of the following entities or operating divisions, which are subject to the provisions of a Joint Operating Agreement (the Agreement) as discussed herein:

Alegent Health (which includes):

- Alegent Health Clinic
- Alegent Health – Midlands Community Hospital
- Alegent Health – Lakeside Hospital
- Alegent Health Foundation

Alegent Health – Bergan Mercy Health System and Affiliates (Bergan) (which includes):

- The Archbishop Bergan Mercy Medical Center, Omaha, Nebraska
- Alegent Health – Mercy Hospital, Council Bluffs, Iowa
- Alegent Health – Mercy Hospital, Inc. and Affiliate, Corning, Iowa
- Avantas, LLC

Alegent Health – Immanuel Medical Center and Affiliates (Immanuel) (which includes):

- Alegent Health – Immanuel Medical Center
- Alegent Health – Community Memorial Hospital, Inc. and Affiliate, Missouri Valley, Iowa
- Alegent Health – Memorial Hospital, Inc. and Affiliate, Schuyler, Nebraska

Significant intercompany accounts and transactions have been eliminated in the combination.

Alegent was established to improve the health status of the community through the development of a network to provide integrated health care services to the Midlands region. Alegent was formed pursuant to the Agreement between Alegent Health, Bergan, and Immanuel, which was effective January 1, 1996. The accompanying combined financial statements are prepared for the purpose of presenting all entities under the common control of Alegent Health on a combined basis, as provided by the Agreement.

Bergan and Immanuel are voluntary not-for-profit organizations that operate health care delivery systems in eastern Nebraska and western Iowa. The sole corporate member of Bergan is Catholic Health Initiatives (CHI). The sole corporate member of Immanuel is Immanuel (Immanuel parent corporation). Bergan and Immanuel are the corporate members of Alegent Health.

(Continued)

The Agreement provides for, among other things, joint management of Immanuel, Bergan, and Alegent Health, a separate not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code). Alegent Health operates certain community health care clinics; Midlands Community Hospital located in Papillion, Nebraska; Lakeside Hospital and Alegent Health Foundation in Omaha, Nebraska; and provides management services to the system.

Under the terms of the Agreement, the combined operating results and capital expenditures of Immanuel and Bergan are shared on an equal basis. Each entity continues to own its respective assets and is responsible for its own liabilities.

In connection with the activities and events described above, certain administrative functions of Immanuel and Bergan are performed at Alegent. These administrative functions include human resources, information systems, planning and marketing, legal, system management, accounting and finance, and other centralized functions.

The Agreement contains provisions related to dissolution, which generally provides for distribution of the assets based on fair value. Distribution percentages vary depending upon the manner in which dissolution occurs (see note 15).

(2) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies of Alegent. These policies are in accordance with U.S. generally accepted accounting principles.

(a) Use of Estimates

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

(b) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of 12 months or less.

(c) Investments

At June 30, 2012 and 2011, 60% and 99% of Alegent's investment portfolio is invested in the CHI investment limited partnership, respectively (note 3). Investment in the CHI investment limited partnership is recorded using the equity method of accounting with the related equity in earnings and losses reported as other income in the accompanying combined financial statements.

During the year ended June 30, 2012, Alegent invested in a fixed income commingled fund structured as a common trust fund which is recorded in other investments on the combined balance sheets. Upon investing in the fund, Alegent elected the fair value option as allowed by U.S. GAAP to record its interest in the fund at fair value. Alegent elected to record this investment at fair value in order to measure this investment at amounts that more accurately reflect the nature of the investment. The financial reporting results of accounting for the investment under fair value are consistent with the results if Alegent had utilized the equity method. In order to estimate fair value, Alegent utilizes net asset value as reported by the fund manager as a practical expedient to fair value. As Alegent has elected to record this investment at fair value, changes in fair value of this investment are recorded in investment and other income, which is included within excess of revenue and expenses, in the combined statements of operations. Alegent has the ability to liquidate its interest in the fund each quarter with 30 days notice. Alegent has not committed any additional funding to this fund as of June 30, 2012.

(Amounts in thousands)

Other investment securities consist of marketable debt and equity securities (i.e., certificates of deposit, annuities, mutual funds, and bonds). Marketable debt and equity securities are recorded at fair value. These securities are set aside by the board of directors for future projects and mission activities.

(d) Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally using the first-in, first-out method.

(e) Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method based on the following useful lives:

Land improvements	10 – 40 years
Buildings and improvements	5 – 40 years
Equipment	3 – 20 years

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. During the years ended June 30, 2012 and 2011, Alegent capitalized approximately $293 and $1,981, respectively, of interest.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support and are excluded from the excess of revenues over expenses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived 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-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(f) Investment in Joint Ventures

Alegent has invested in certain joint ventures and accounts for such investments using either the cost or the equity method of accounting based on the relative percentage of ownership and the level of influence over the investee.

During 2011, Immanuel sold its spine operations to Nebraska Spine Hospital, LLC, an equity method joint venture of which Alegent owns 51%. The total gain on sale of $18,692 is reflected in operating income in the combined statements of operations.

(g) Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group to be tested for possible impairment, Alegent first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

During 2011, Alegent recognized a loss of $7,097 related to the impairment of goodwill and other long-lived assets at Bergan Mercy Surgery Center, LLC, a consolidated investee, which is reflected in operating expenses in the accompanying combined statements of operations. Fair value was determined based on discounted cash flow models.

During 2012, Alegent recognized a loss of $6,651 related to the impairment of certain information technology system assets, which is reflected in operating expenses in the accompanying combined statements of operations.

(h) Temporarily and Permanently Restricted Net Assets

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

Temporarily and permanently restricted net assets held by Alegent are recorded and accounted for in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 958-205, *Endowments of Not-For-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds.*

Alegent holds endowment funds for support of its programs and operations. As required by U.S. generally accepted accounting principles, net assets and the changes therein associated with

(Continued)

endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Alegent Health Foundation's board of directors has interpreted UPMIFA as requiring the preservation of the whole dollar value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Alegent classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Interest, dividends, and net appreciation of the donor-restricted endowment funds are classified according to donor stipulations. Absent any donor-imposed restrictions, interest, dividends, and net appreciation are deemed appropriated for expenditure when earned. In accordance with UPMIFA, Alegent considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) the duration and preservation of the endowment fund;

(2) the purposes of Alegent and the donor-restricted endowment fund;

(3) general economic conditions;

(4) the possible effect of inflation or deflation;

(5) the expected total return from income and the appreciation of investments;

(6) other resources of Alegent; and

(7) the investment policies of Alegent.

(i) Donor-Restricted Gifts

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

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

(j) Net Patient Service Revenue

Alegent has agreements with third-party payors that provide for payments to Alegent at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(k) Charity Care – Benefits for the Poor and Underserved

Alegent provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Alegent does not pursue collection of amounts once determined to qualify as charity care, they are not reported as revenue in the combined statements of operations. The cost of services and supplies furnished under Alegent's charity policy aggregated approximately $32,726 and $31,387 in 2012 and 2011, respectively.

(l) Excess of Revenues over Expenses

The combined statements of operations include excess of revenues over expenses. Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and securities in which the fair value option has been elected, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets), and certain changes in the liability for pension benefits.

(m) Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(n) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, estimated third-party payor settlements, and payables approximate fair value due to the short duration of these instruments. Fair value for investments is based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The carrying amount of the investment in the CHI investment limited partnership is recorded on the equity method which equals the net asset value reported by the limited partnership, which approximates fair value. The fair value of long-term debt as of June 30, 2012 and 2011 is approximately $469,493 and $480,019, respectively.

Alegent follows the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the combined financial statements on a recurring and nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(Amounts in thousands)

(o) Asset Retirement Obligations

Alegent recognizes the fair value of liabilities for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. Over time, the obligation is accreted to its present value each period. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the combined statements of operations. Alegent's obligations relate to estimates of the costs to abate clinical and administrative facilities containing asbestos, to replace underground storage tanks, and to modify leased properties. At June 30, 2012 and 2011, this long-term liability totaled $3,691 and $4,119, respectively.

(p) Income Taxes

All related entities (see note 1) have been recognized as not-for-profit corporations by the Internal Revenue Service (IRS) as described in Section 501(c)(3) of the Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code, except Avantas, LLC. Avantas, LLC is a multimember limited liability company treated as a partnership and, therefore, is not subject to federal and state income taxes.

Alegent recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Such tax positions, which are more than 50% likely of being realized, are measured at their highest value. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. During 2012 and 2011, management determined that there are no income tax positions requiring recognition in the combined financial statements.

(q) Reclassifications

Certain balances from 2011 have been reclassified to conform to the current year presentation.

(3) Assets Limited as to Use

The composition of assets limited as to use at June 30, 2012 and 2011 is set forth in the following table.

	2012	2011
Investment in CHI investment limited partnership	$ 385,010	$ 567,973
Fixed income common trust fund	244,216	—
Cash and cash equivalents	3,677	4,338
Marketable equity securities	—	275
Pledges receivable	781	945
Other	4,636	4,519
Total	$ 638,320	$ 578,050

(Amounts in thousands)

Alegent has an undivided interest in the CHI investment limited partnership. Alegent accounts for its investment in the investment partnership using the equity method of accounting. At June 30, 2012 and 2011, the value of the CHI investment limited partnership approximated $5.5 billion and $6.0 billion, with Alegent's ownership interest approximating 7% and 9%, respectively. Alegent's investment in the CHI investment limited partnership is comprised of the following as of June 30, 2012 and 2011:

	2012	2011
Fixed income	$ 200,248	$ 269,882
Equity	184,762	298,091
Total	$ 385,010	$ 567,973

The CHI investment limited partnership is comprised of the following investment classifications as of June 30, 2012 and 2011:

	2012	2011
Cash and cash equivalents	5%	9%
Common stocks	41	40
Corporate and other bonds	10	11
U.S. government securities	3	3
Fixed income funds	20	15
Hedge funds	8	8
Private equity funds	6	6
Real estate funds	4	4
Foreign currency exchange contracts	2	3
Other	1	1
Total	100%	100%

Investment income, gains, and losses for assets limited as to use and cash and cash equivalents are comprised of the following for the years ended June 30, 2012 and 2011:

	2012	2011
Combined statements of operations:		
Interest and investment income	$ 2,852	$ 506
Equity in income of investment limited partnership	8,387	87,022
Total investment income	$ 11,239	$ 87,528

(4) Net Patient Service Revenue

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

(a) Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. In addition, Alegent Health – Mercy Hospital, Inc., Corning, Iowa; Alegent Health – Community Memorial Hospital, Inc., Missouri Valley, Iowa; and Alegent Health – Memorial Hospital, Inc., Schuyler, Nebraska, have been designated Critical Access Hospitals and, accordingly, are reimbursed their cost of providing services to Medicare beneficiaries.

(b) Nebraska and Iowa Medicaid

Nebraska and Iowa inpatient and Iowa outpatient services rendered to Medicaid program beneficiaries are primarily paid at prospectively determined rates per discharge or procedure. Certain Nebraska outpatient services are reimbursed based on a percentage rate representing the average ratio of cost to charges discounted by 18%. Physician clinic services are paid based on fee schedule amounts. The hospitals designated as Critical Access Hospitals are reimbursed their reasonable costs.

Revenue from Medicare and Medicaid programs accounted for approximately 28% and 8%, respectively, of Alegent's net patient revenue for the year ended June 30, 2012, and 28% and 9%, respectively, of Alegent's net patient revenue for the year ended June 30, 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2012 and 2011 net patient service revenue increased approximately $5,692 and $3,556, respectively, due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

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

(Amounts in thousands)

Net patient service revenue, as reflected in the accompanying combined statements of operations, consists of the following:

		2012		2011
Gross patient charges:				
Inpatient charges	$	1,319,206	$	1,321,000
Outpatient charges		1,269,193		1,153,597
Total gross patient charges		2,588,399		2,474,597
Less:				
Deductions from gross patient charges:				
Contractual adjustments – Medicare, Medicaid, and other		1,572,875		1,497,902
Net patient service revenue	$	1,015,524	$	976,695

(5) Long-Term Debt

Long-term debt as of June 30, 2012 and 2011 consists of the following:

		2012		2011
Promissory notes payable to CHI, principal maturing in varying annual amounts through December 1, 2028, with a weighted average yield of 4.35% during 2012	$	163,657	$	173,877
Promissory notes payable to CHI, principal maturing in varying annual amounts through December 1, 2039, with a weighted average yield of 4.35% during 2011		272,383		276,970
Other long-term obligations		15,219		4,719
Total long-term debt		451,259		455,566
Less current maturities		18,093		18,588
Long-term debt, excluding current maturities	$	433,166	$	436,978

Bergan, Immanuel, and Alegent have entered into the Alegent Financing Agreement (AFA) with CHI, which provides access to the capital markets. Under the terms of the AFA, Bergan is defined as a Participant and Alegent and Immanuel as Designated Affiliates. These categories define the level of participation and control of CHI. The terms of the AFA require the Alegent system to meet certain financial covenants and ratios and provide other limits relating to additional indebtedness and transfers of property, among others. Under the terms of the AFA, each party has issued promissory notes to CHI. The obligations issued under the AFA represent the individual obligations of the issuer. In the unlikely event that CHI would have insufficient funds to make required payments on its financial obligations, Bergan, Immanuel, and Alegent and all other Participants and Designated Affiliates of CHI may be required to contribute funds to CHI to enable it to meet its obligations.

(Amounts in thousands)

On November 10, 2009, Bergan, Immanuel, and Alegent issued additional promissory notes to CHI for $282 million. During 2010, Alegent received approximately $244 million of the $282 million in debt proceeds from CHI, and the remaining $38 million in debt proceeds was received during 2011 as financed assets were placed into service.

Scheduled principal payments on long-term debt for the next five years are approximately as follows:

2013	$	18,093
2014		22,251
2015		19,376
2016		20,322
2017		20,516
Thereafter		350,701

(6) Retirement Plans

(a) Alegent Health Retirement 403(b) Plan

Alegent sponsors a 403(b) savings plan. Participating employees can contribute a portion of their salary to the plan, subject to IRS regulations. Alegent makes matching contributions up to a maximum of 3% based on salary and a fixed contribution up to 6% based on years of service. Alegent's pension expense related to the 403(b) savings plan was $20,410 and $17,693 in 2012 and 2011, respectively.

(b) Alegent Health Multioptional Pension Plan

Alegent sponsors a noncontributory multioptional pension plan (the Plan), which was frozen effective January 1, 2010.

Generally, employees were eligible for participation after completing one year of service in which the employee completed 1,000 hours or more of service and had attained the age of 19. This Plan covered eligible employees as of January 1, 2010. For each plan year, a retirement benefit was provided for as a percentage of the eligible participant's annual compensation based on length of service. Employee contributions to the Plan were not permitted except for certain rollover provisions. Benefits are available to participants at a normal retirement age of 65, with early retirement available to participants who have reached the age of 55 and are 100% vested. Benefits vest after three years of service. Total net periodic pension cost approximated $1,809 and $2,552 during 2012 and 2011, respectively.

(Amounts in thousands)

The Plan's approximate net periodic pension cost for the years ended June 30, 2012 and 2011 is included in the following components:

Defined Benefit Option

The following table summarizes the projected benefit obligation, the fair value of plan assets, and the funded status at June 30, 2012 and 2011:

	2012	2011
Changes to benefit obligation:		
Benefit obligation at beginning of period	$ 112,208	$ 112,534
Service cost	100	100
Interest cost	6,102	6,416
Actuarial loss (gain)	16,172	(944)
Plan expenses	(41)	(55)
Benefits paid	(6,135)	(5,843)
Benefit obligation at end of period	128,406	112,208
Changes in plan assets:		
Fair value of plan assets at beginning of period	80,046	55,986
Actual return on plan assets	1,553	14,658
Employer contributions	5,300	15,300
Plan expenses	(41)	(55)
Benefits paid	(6,135)	(5,843)
Fair value of plan assets at end of period	80,723	80,046
Funded status at end of period	$ (47,683)	$ (32,162)
Amounts recognized in the combined balance sheets:		
Noncurrent liabilities	$ (47,683)	$ (32,162)
Accumulated reduction in unrestricted net assets	48,436	29,450
Net amount recognized	$ 753	$ (2,712)

Amounts recognized in accumulated reduction in unrestricted net assets consist of the net actuarial loss of $48,436 and $29,450 at June 30, 2012 and 2011, respectively.

The accumulated benefit obligation as of June 30, 2012 and 2011 was $128,406 and $112,208, respectively.

(Amounts in thousands)

The following is a summary of the components of net periodic pension cost for the years ended June 30, 2012 and 2011:

	2012	2011
Service cost during the period	$ 100	$ 100
Interest cost on projected benefit obligation	6,102	6,416
Expected return on plan assets	(6,279)	(5,858)
Amortization of unrecognized loss	1,912	1,922
Total benefit cost	$ 1,835	$ 2,580

Other changes in plan assets and benefit obligation recognized in other changes in unrestricted net assets in 2012 and 2011 consist of the amortization of net gain (loss) of $(18,986) and $11,666, respectively.

The net loss for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $3,511.

Alegent's investment objective with respect to the pension plan is to produce sufficient current income and capital growth through a portfolio of equity and fixed income investments that, together with appropriate employer contributions, is sufficient to provide for the pension benefit obligations. Pension assets are managed by outside investment managers in accordance with the investment policies and guidelines established by the pension trustees and are diversified by investment style, asset category, sector, industry, issuer, and maturity. Alegent's overall asset allocation in the pension plan consists of 53% equity securities, 27% debt securities, and 20% other types of investments.

The participants in the Plan are invested in a commingled investment vehicle offered by CHI. As these investments are commingled with other funds, the postretirement fund investments are measured using net asset value as reported by CHI using Level 3 inputs as defined in ASC Topic 820. The investment policies and strategies for the plan assets are to maintain these asset allocations consistent with the allocations as of June 30, 2012.

The reconciliation of the beginning and ending balances of the commingled investment vehicle are as follows:

	2012	2011
Beginning balance	$ 80,046	55,986
Actual return on plan assets	1,553	14,658
Purchases	5,300	15,300
Sales	(6,176)	(5,898)
Ending balance	$ 80,723	80,046

(Amounts in thousands)

The current investment mix of the portfolio is as follows:

	Target allocations	2012	2011
Equity securities	53%	51%	54%
Debt securities	27	30	26
Other	20	19	20
Total	100%	100%	100%

The following are the actuarial assumptions used by the Plan to develop the components of pension cost for the years ended June 30, 2012 and 2011:

	2012	2011
Discount rate	5.65%	5.90%
Rate of increase in compensation levels	N/A	N/A
Expected long-term rate of return on plan assets	8.00	8.00

Alegent's overall expected long-term rate of return on assets is 8.0%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The following are the actuarial assumptions used by the Plan to develop the components of the pension projected benefit obligation for the years ended June 30, 2012 and 2011:

	2012	2011
Discount rate	4.45%	5.65%

The benefits expected to be paid in each year from 2013 to 2017 are $8,596, $4,474, $4,160, $5,797, and $6,633, respectively. The aggregate benefits expected to be paid in the five years from 2018 to 2022 are $32,911. The expected benefits to be paid are based on the same assumptions used to measure Alegent's benefit obligation at June 30, 2012 and include estimated employee service.

Alegent expects to contribute $600 to the defined benefit portion of its retirement plan in fiscal year 2013.

(7) Fair Value Measurements

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

(Amounts in thousands)

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Alegent has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The investment in the fixed income common trust fund is valued based on the funds' net asset value, as supplied by the trust and this valuation is reviewed by Alegent's management and used as a practical expedient to fair value. Classification as Level 2 is based on Alegent's ability to redeem its interest in the near term.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. There were no transfers between Level 1 and Level 2 measurements during the year ended June 30, 2012.

The following tables present assets and liabilities that are measured at fair value on a recurring basis at June 30, 2012 and 2011:

		Fair value measurements at reporting date using		
	June 30, 2012	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:				
Cash and cash equivalents	$ 143,477	$ 142,567	$ 910	$ —
Assets limited as to use:				
Cash and cash equivalents	3,677	282	3,395	—
Fixed income common trust fund	244,216	—	244,216	—
Other	4,636	1,747	2,889	—
Total	$ 396,006	$ 144,596	$ 251,410	$ —

(Amounts in thousands)

	June 30, 2011	Fair value measurements at reporting date using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 143,275	$ 141,156	$ 2,119	$ —
Assets limited as to use:				
Cash and cash equivalents	4,338	69	4,269	—
Investment funds	18	—	18	—
Corporate and asset-backed securities	275	—	275	—
Other	1,910	—	1,910	—
Total	$ 149,816	$ 141,225	$ 8,591	$ —

For the year ended June 30, 2012, Alegent did not have nonfinancial assets or nonfinancial liabilities, which require measurement at fair value on a nonrecurring basis in accordance with ASC Topic 820, except for certain long-lived assets and goodwill, which were valued at $0 after recognizing an impairment loss of $7,097 in 2011 utilizing discounted cash flow analyses (Level 3).

(8) Concentrations of Credit Risk

Alegent grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2012 and 2011 approximated the following:

	2012	2011
Medicare	32%	32%
Medicaid	17	16
Managed care	30	31
Self-pay	19	20
Commercial and other	2	1
	100%	100%

(9) Insurance Programs

Alegent is currently insured under an occurrence-based trust for its hospital professional and general liability insurance coverage, which expires July 1, 2012. The policy provides for a deductible of $2,000 per occurrence, with annual aggregates of $4,000 for general liability and $6,000 for hospital professional liability. In addition, Alegent has excess coverage purchased from the commercial insurance market providing for $30,000 per occurrence and in the aggregate. In the event that the current policy is not renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. Alegent has established reserves for possible losses on both asserted and unasserted claims based upon an independent actuarial study.

(Amounts in thousands)

Alegent participates in a workers' compensation self-insurance program, which provides coverage for all workers' compensation claims. Coverage is provided through a self-insurance program for both Nebraska and Iowa with a fronting policy whereby the responsibility for the initial $450 of each claim resides with the workers' compensation self-insurance program. A specific stop-loss agreement covers claims amounts in excess of $450 up to each state's statutory requirements. Alegent has established reserves for possible losses on both asserted and unasserted claims based upon an independent actuarial study.

Alegent is also self-insured under its employee group health and dental programs. Included in the accompanying combined statements of operations are estimates of the ultimate costs for both reported claims and claims incurred but not yet reported at year-end related to such claims.

Management of Alegent is presently not aware of any unasserted general and professional liability or group health, dental, or workers' compensation claims that would have a material adverse impact on the accompanying combined financial statements.

(10) Laws and Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that Alegent is in compliance with government laws and regulations as they apply to the areas of fraud and abuse.

(11) Functional Expenses

Alegent provides health care services primarily to residents within its geographic location. Expenses included in the combined statements of operations as they relate to provision of these services are as follows for the years ended June 30, 2012 and 2011:

	2012	2011
Health care services	$ 933,595	$ 894,992
General and administrative	112,127	104,443
Total operating expenses	$ 1,045,722	$ 999,435

(Amounts in thousands)

(12) Meaningful Use of Certified Electronic Health Record Technology Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 to certain hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology in ways that demonstrate improved quality and effectiveness of care. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. An initial Medicaid incentive payment is available to providers that adopt, implement, or upgrade certified EHR technology. However, in order to receive additional Medicaid incentive payments in subsequent years, providers must demonstrate continued meaningful use of EHR technology.

Alegent accounts for meaningful use incentive payments under the gain contingency model. Medicare EHR incentive payments are recognized as revenues when eligible providers demonstrate meaningful use of certified EHR technology and the cost report information for the full cost report year that will determine the full calculation of the incentive payment is available. Medicaid EHR incentive payments are recognized as revenues when an eligible provider demonstrates meaningful use of certified EHR technology. For fiscal year 2012, Alegent recognized $9,500 of Medicare meaningful use revenues and $3,600 of Medicaid meaningful use revenues in its combined statement of operations.

(13) EPIC

During 2012, Alegent's board of directors approved the implementation of the Epic system. Epic provides a single-platform integrated Electronic Health Record for hospital and ambulatory patients. The first ambulatory clinic go-live is scheduled for September 2013 and first hospital go-live is scheduled for late 2013. Phased go-lives continue through early 2015. The estimated capital investment is $74,000 and total five-year project-related expenses are estimated at $32,600.

(14) Joint Ventures

Alegent participates in several joint ventures. The following table represents the joint ventures and their respective balances as reflected in investments in joint ventures on the combined balance sheets:

	2012	2011
Investment in joint ventures:		
Nebraska Spine Hospital, LLC	$ 14,312	$ 16,228
Memorial Community Hospital Corporation and Affiliate	7,772	6,878
Lakeside Surgery Center, LLC	2,125	3,701
Prairie Health Ventures, LLC	4,119	2,595
Other	3,392	833
Total investment in joint ventures	$ 31,720	$ 30,235

(Amounts in thousands)

The following table represents 100% of the combined financial position and results of operations of the joint ventures discussed above:

		2012		2011
Financial position:				
Total assets	$	93,762	$	93,646
Total liabilities	$	31,381	$	31,659
Net assets		62,381		61,987
Total liabilities and net assets	$	93,762	$	93,646
Results of operations:				
Revenue	$	97,828	$	79,094
Change in equity		30,885		34,385

Total equity in income of joint ventures was $17,047 and $7,429 in 2012 and 2011, respectively.

(15) Subsequent Events

On July 1, 2012, Immanuel's parent corporation entered into a letter of intent with CHI stating their intent to resign their sponsorship, thereby CHI would become the sole corporate member of Alegent and all of the related entities. The change in sponsorship would result in CHI obtaining full control over Alegent and its affiliates, thus dissolving the Joint Operating Agreement discussed in note 1.

On September 1, 2012, Alegent acquired certain assets, licenses, and contracts of Creighton University Medical Center (CUMC) for $40 million. CUMC is a 220-bed acute care hospital located in Omaha, Nebraska. Commensurate with the purchase, Alegent entered into a Strategic Affiliation Agreement with Creighton University (Creighton) whereby Alegent hospitals (including the former CUMC location) will become the primary teaching sites for the Creighton School of Medicine. The related agreements require payments by Alegent for costs associated with medical residents and other educational support. Alegent received a contribution of $50 million from Creighton to support its new academic mission. Creighton also contributed all of the assets and liabilities of its medical practice operations (Creighton Medical Associates) to Alegent.

Alegent has evaluated subsequent events from the combined balance sheet date through September 13, 2012, the date at which the combined financial statements were available to be issued, and determined there are no additional items to disclose.

Exhibit I

ALEGENT HEALTH AND RELATED ENTITIES

Consolidating Balance Sheet Information

June 30, 2012

(Amounts in thousands)

Assets	Alegent Health	Alegent Health— Foundation	Alegent Health— Midlands Community Hospital	Alegent Health Clinic	Alegent Health— Lakeside Hospital	Eliminations	Alegent Health and Affiliates Consolidated
Current assets:							
Cash and cash equivalents	$ (7,290)	$ —	$ 2	$ 423	$ (126)	$ —	$ (6,991)
Patient accounts receivable	3,943	—	13,984	15,852	26,014	—	59,793
Less allowance for uncollectible accounts	545	—	7,695	5,653	8,865	—	22,758
Net patient accounts receivable	3,398	—	6,289	10,199	17,149	—	37,035
Intercorporate receivable	—	—	34,571	—	172,444	(207,015)	—
Other accounts receivable	2,269	—	164	107	264	—	2,804
Inventories	630	—	1,444	599	2,541	—	5,214
Prepaid expenses	8,644	—	—	86	101	—	8,831
Total current assets	7,651	—	42,470	11,414	192,373	(207,015)	46,893
Assets limited as to use:							
Investment in CHI limited partnership	—	14,967	—	—	—	—	14,967
Other investments	4,307	781	—	—	—	—	5,088
Total assets limited as to use	4,307	15,748	—	—	—	—	20,055
Property and equipment:							
Land	7,276	—	2,263	—	6,933	—	16,472
Land improvements	523	—	1,397	141	7,003	—	9,064
Buildings and improvements	55,647	27	105,299	3,974	132,753	—	297,700
Equipment	190,088	96	33,006	10,405	44,807	—	278,402
Construction in progress	23,779	—	266	1,321	737	—	26,103
	277,313	123	142,231	15,841	192,233	—	627,741
Less accumulated depreciation	166,805	78	70,096	10,719	67,419	—	315,117
Property and equipment, net	110,508	45	72,135	5,122	124,814	—	312,624
Other assets:							
Property held for investment or future expansion	2,492	—	—	—	1,860	—	4,352
Investment in subsidiaries	121,637	—	—	—	—	(121,637)	—
Investment in joint ventures	19,572	—	—	—	—	—	19,572
Other assets	3,482	—	21	3	19	—	3,525
Total other assets	147,183	—	21	3	1,879	(121,637)	27,449
Total assets	$ 269,649	$ 15,793	$ 114,626	$ 16,539	$ 319,066	$ (328,652)	$ 407,021

(Continued)

Exhibit I

ALEGENT HEALTH AND RELATED ENTITIES

Consolidating Balance Sheet Information

June 30, 2012

(Amounts in thousands)

Liabilities and Net Assets	**Alegent Health**	**Alegent Health—Foundation**	**Alegent Health—Midlands Community Hospital**	**Alegent Health Clinic**	**Alegent Health—Lakeside Hospital**	**Eliminations**	**Alegent Health and Affiliates Consolidated**
Current liabilities:							
Current portion of long-term debt	$ 2,955	$ —	$ 1,897	$ —	$ 2,152	$ —	$ 7,004
Accounts payable	16,488	—	2,669	7	1,301	—	20,465
Accrued salaries, wages, and benefits	47,891	—	70	7,928	174	—	56,063
Accrued vacation and sick leave	38,099	—	—	—	—	—	38,099
Intercorporate payable	11,030	339	—	195,646	—	(207,015)	—
Estimated third-party payor settlements	170	—	586	—	1,380	—	2,136
Other liabilities and accrued expenses	30,001	6	901	14	1,170	—	32,092
Total current liabilities	146,634	345	6,123	203,595	6,177	(207,015)	155,859
Long-term debt, net of current portion	14,869	—	53,596	—	74,363	—	142,828
Other long-term liabilities	4,763	—	188	—	—	—	4,951
Liability for pension benefits	47,683	—	—	—	—	—	47,683
Total liabilities	213,949	345	59,907	203,595	80,540	(207,015)	351,321
Net assets:							
Unrestricted	45,961	5,709	54,719	(187,056)	238,526	(111,898)	45,961
Temporarily restricted	6,157	6,157	—	—	—	(6,157)	6,157
Permanently restricted	3,582	3,582	—	—	—	(3,582)	3,582
Total net assets	55,700	15,448	54,719	(187,056)	238,526	(121,637)	55,700
Total liabilities and net assets	$ 269,649	$ 15,793	$ 114,626	$ 16,539	$ 319,066	$ (328,652)	$ 407,021

See accompanying independent auditors' report.

Exhibit I

ALEGENT HEALTH AND RELATED ENTITIES

Combining Balance Sheet Information

June 30, 2012

(Amounts in thousands)

Assets	Alegent Health— Bergan Mercy Health System and Affiliates Consolidated	Alegent Health— Immanuel Medical Center and Affiliates Consolidated	Alegent Health and Affiliates Consolidated	Eliminations	Alegent Health and Related Entities Combined
Current assets:					
Cash and cash equivalents	$ 68,846	$ 81,622	$ (6,991)	$ —	$ 143,477
Patient accounts receivable	86,543	46,460	59,793	—	192,796
Less allowance for uncollectible accounts	36,816	19,784	22,758	—	79,358
Net patient accounts receivable	49,727	26,676	37,035	—	113,438
Intercorporate receivable	7,791	—	—	(7,791)	—
Other accounts receivable	3,519	2,070	2,804	—	8,393
Inventories	8,502	3,227	5,214	—	16,943
Prepaid expenses	276	315	8,831	—	9,422
Total current assets	138,661	113,910	46,893	(7,791)	291,673
Assets limited as to use:					
Investment in CHI limited partnership	157,426	212,617	14,967	—	385,010
Other investments	105,951	142,271	5,088	—	253,310
Total assets limited as to use	263,377	354,888	20,055	—	638,320
Property and equipment:					
Land	3,349	1,911	16,472	—	21,732
Land improvements	13,809	8,481	9,064	—	31,354
Buildings and improvements	403,117	236,698	297,700	—	937,515
Equipment	173,506	88,480	278,402	—	540,388
Construction in progress	1,052	3,445	26,103	—	30,600
	594,833	339,015	627,741	—	1,561,589
Less accumulated depreciation	309,401	195,455	315,117	—	819,973
Property and equipment, net	285,432	143,560	312,624	—	741,616
Other assets:					
Property held for investment or future expansion	—	159	4,352	—	4,511
Investment in Alegent Health	27,850	27,850	—	(55,700)	—
Investment in joint ventures	250	11,898	19,572	—	31,720
Other assets	51	38	3,525	(2,750)	864
Total other assets	28,151	39,945	27,449	(58,450)	37,095
Total assets	$ 715,621	$ 652,303	$ 407,021	$ (66,241)	$ 1,708,704

(Continued)

Exhibit I

ALEGENT HEALTH AND RELATED ENTITIES

Combining Balance Sheet Information

June 30, 2012

(Amounts in thousands)

Liabilities and Net Assets	**Alegent Health— Bergan Mercy Health System and Affiliates Consolidated**	**Alegent Health— Immanuel Medical Center and Affiliates Consolidated**	**Alegent Health and Affiliates Consolidated**	**Eliminations**	**Alegent Health and Related Entities Combined**
Current liabilities:					
Current portion of long-term debt	$ 6,527	$ 4,562	$ 7,004	$ —	$ 18,093
Accounts payable	4,974	2,354	20,465	—	27,793
Accrued salaries, wages, and benefits	1,041	473	56,063	—	57,577
Accrued vacation and sick leave	—	—	38,099	—	38,099
Intercorporate payable	—	7,791	—	(7,791)	—
Estimated third-party payor settlements	8,976	8,639	2,136	—	19,751
Other liabilities and accrued expenses	10,208	4,014	32,092	—	46,314
Total current liabilities	31,726	27,833	155,859	(7,791)	207,627
Long-term debt, net of current portion	167,375	125,713	142,828	(2,750)	433,166
Other long-term liabilities	2,437	818	4,951	—	8,206
Liability for pension benefits	—	—	47,683	—	47,683
Total liabilities	201,538	154,364	351,321	(10,541)	696,682
Net assets:					
Unrestricted	509,117	492,544	45,961	(45,961)	1,001,661
Temporarily restricted	3,175	3,348	6,157	(6,157)	6,523
Permanently restricted	1,791	2,047	3,582	(3,582)	3,838
Total net assets	514,083	497,939	55,700	(55,700)	1,012,022
Total liabilities and net assets	$ 715,621	$ 652,303	$ 407,021	$ (66,241)	$ 1,708,704

See accompanying independent auditors' report.

Exhibit II

ALEGENT HEALTH AND RELATED ENTITIES

Consolidating Statement of Operations Information

Year ended June 30, 2012

(Amounts in thousands)

	Alegent Health	Alegent Health— Foundation	Alegent Health— Midlands Community Hospital	Alegent Health Clinic	Alegent Health— Lakeside Hospital	Eliminations	Alegent Health and Affiliates Consolidated
Unrestricted revenues, gains, and other support:							
Gross patient charges:							
Inpatient charges	$ 1,278	$ —	$ 58,219	$ —	$ 212,767	$ —	$ 272,264
Outpatient charges	18,007	—	101,685	141,560	184,834	—	446,086
	19,285	—	159,904	141,560	397,601	—	718,350
Less:							
Deductions from gross patient charges:							
Contractual adjustments and other	8,068	—	105,190	34,979	242,727	—	390,964
Net patient service revenue	11,217	—	54,714	106,581	154,874	—	327,386
Cafeteria, building rental, sales to nonpatients, and other	18,589	1,644	3,712	7,148	9,699	(17,845)	22,947
Total revenues, gains, and other support	29,806	1,644	58,426	113,729	164,573	(17,845)	350,333
Operating expenses:							
Salaries and wages	75,134	526	15,659	28,871	35,195	(49,966)	105,419
Employee benefits	24,210	85	4,345	8,354	9,164	(15,260)	30,898
Supplies	3,598	25	7,112	6,065	20,878	(1,122)	36,556
Intercorporate services	(169,418)	—	10,668	13,555	23,188	122,007	—
Purchased services	35,782	300	4,531	9,750	7,125	(27,460)	30,028
Professional services	8,126	—	1,385	66,146	3,559	(4,261)	74,955
Provision for bad debts	294	—	5,029	5,840	7,577	—	18,740
Other expenses	19,156	87	375	2,938	1,273	(22,325)	1,504
Depreciation and amortization	20,214	10	6,612	1,709	10,281	(13,981)	24,845
Rentals and leases	3,664	3	823	7,244	4,450	(5,380)	10,804
Interest	497	—	2,487	—	3,339	(97)	6,226
Equity in loss of operating subsidiaries	(1,809)	—	—	—	—	1,809	—
Total operating expenses	19,448	1,036	59,026	150,472	126,029	(16,036)	339,975
Operating income (loss)	10,358	608	(600)	(36,743)	38,544	(1,809)	10,358
Other income (expense):							
Interest and investment income	114	(96)	1	—	9	—	28
Equity in income of investment limited partnership	—	236	—	—	—	—	236
Equity in other income of subsidiaries	150	—	—	—	—	(150)	—
Other, net	(110)	—	—	—	—	—	(110)
Total other income	154	140	1	—	9	(150)	154
Excess (deficiency) of revenues over expenses	10,512	748	(599)	(36,743)	38,553	(1,959)	10,512
Other changes in unrestricted net assets:							
Contributions for the purchase of property and equipment	3	—	38	2	8	—	51
Liability for pension benefits adjustment	(18,986)	—	—	—	—	—	(18,986)
Transfers to other Alegent affiliates	(37,358)	—	—	—	—	—	(37,358)
Equity in other changes in unrestricted net assets of subsidiaries	48	—	—	—	—	(48)	—
Other	134	—	—	—	—	—	134
Increase (decrease) in unrestricted net assets	$ (45,647)	$ 748	$ (561)	$ (36,741)	$ 38,561	$ (2,007)	$ (45,647)

See accompanying independent auditors' report.

Exhibit II

ALEGENT HEALTH AND RELATED ENTITIES

Combining Statement of Operations Information

Year ended June 30, 2012

(Amounts in thousands)

	Alegent Health— Bergan Mercy Health System and Affiliates Consolidated	Alegent Health— Immanuel Medical Center and Affiliates Consolidated	Alegent Health and Affiliates Consolidated	Eliminations	Alegent Health and Related Entities Combined
Unrestricted revenues, gains, and other support:					
Gross patient charges:					
Inpatient charges	$ 737,995	$ 308,947	$ 272,264	$ —	$ 1,319,206
Outpatient charges	570,732	252,375	446,086	—	1,269,193
	1,308,727	561,322	718,350	—	2,588,399
Less:					
Deductions from gross patient charges:				—	
Contractual adjustments and other	842,221	339,359	390,964	331	1,572,875
Net patient service revenue	466,506	221,963	327,386	(331)	1,015,524
Cafeteria, building rental, sales to nonpatients, and other	50,301	17,060	22,947	(25,163)	65,145
Total revenues, gains, and other support	516,807	239,023	350,333	(25,494)	1,080,669
Operating expenses (income):					
Salaries and wages	163,280	93,660	105,419	—	362,359
Employee benefits	45,766	27,033	30,898	(131)	103,566
Supplies	86,437	28,191	36,556	(1,057)	150,127
Purchased services	50,735	28,628	30,028	(18,825)	90,566
Professional services	22,318	19,520	74,955	(114)	116,679
Provision for bad debts	34,713	15,702	18,740	—	69,155
Other expenses	20,692	8,898	1,504	(74)	31,020
Depreciation and amortization	40,012	19,592	24,845	(46)	84,403
Rentals and leases	8,155	4,696	10,804	(5,247)	18,408
Interest	7,579	5,634	6,226	—	19,439
Equity in operating income of Alegent Health	(5,179)	(5,179)	—	10,358	—
Total operating expenses	474,508	246,375	339,975	(15,136)	1,045,722
Operating income (loss)	42,299	(7,352)	10,358	(10,358)	34,947
Other income (expense):					
Interest and investment income	1,311	1,513	28	—	2,852
Equity in income of investment limited partnership	2,934	5,217	236	—	8,387
Other, net	(252)	(41)	(110)	—	(403)
Equity in other income of Alegent Health	77	77	—	(154)	—
Total other income, net	4,070	6,766	154	(154)	10,836
Excess of revenues over expenses, before joint operating agreement adjustment	46,369	(586)	10,512	(10,512)	45,783
Joint operating agreement adjustment	(32,737)	32,737	—	—	—
Excess of revenues over expenses	13,632	32,151	10,512	(10,512)	45,783
Other changes in unrestricted net assets:					
Contributions for the purchase of property and equipment	4	24	51	—	79
Net assets released from restrictions for the purchase of property and equipment	990	—	—	—	990
Joint operating agreement adjustment – capital expenditures	330	(330)	—	—	—
Liability for pension benefits adjustment	—	—	(18,986)	—	(18,986)
Transfers (to) from other Alegent affiliates	18,679	18,679	(37,358)	—	—
Equity in other changes in unrestricted net assets of Alegent Health	(28,079)	(28,080)	—	56,159	—
Other	—	(48)	134	—	86
Increase (decrease) in unrestricted net assets	$ 5,556	$ 22,396	$ (45,647)	$ 45,647	$ 27,952

See accompanying independent auditors' report.

Exhibit III

ALEGENT HEALTH AND RELATED ENTITIES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2012

(Amounts in thousands)

	Alegent Health	Alegent Health— Foundation	Alegent Health— Midlands Community Hospital	Alegent Health Clinic	Alegent Health— Lakeside Hospital	Eliminations	Alegent Health and Affiliates Consolidated
Unrestricted:							
Balance, June 30, 2011	$ 91,608	$ 4,961	$ 55,280	$ (150,315)	$ 199,965	$ (109,891)	$ 91,608
Excess (deficiency) of revenues over expenses	10,512	748	(599)	(36,743)	38,553	(1,959)	10,512
Contributions for the purchase of property and equipment	3	—	38	2	8	—	51
Liability for pension benefits adjustment	(18,986)	—	—	—	—	—	(18,986)
Transfers to other Alegent affiliates	(37,358)	—	—	—	—	—	(37,358)
Equtiy in other changes in unrestricted net assets of subsidiaries	48	—	—	—	—	(48)	—
Other	134	—	—	—	—	—	134
Increase (decrease) in unrestricted net assets	(45,647)	748	(561)	(36,741)	38,561	(2,007)	(45,647)
Balance, June 30, 2012	$ 45,961	$ 5,709	$ 54,719	$ (187,056)	$ 238,526	$ (111,898)	$ 45,961
Temporarily restricted:							
Balance, June 30, 2011	$ 5,128	$ 5,128	$ —	$ —	$ —	$ (5,128)	$ 5,128
Restricted interest and investment income, net	—	224	—	—	—	—	224
Net assets released from restrictions for use in operations	—	(353)	—	—	—	—	(353)
Change in unrealized gains on investments, net	—	(134)	—	—	—	—	(134)
Contributions restricted by donor	—	1,328	—	—	—	—	1,328
Equity in other changes in temporarily restricted net assets of subsidiary	1,029	—	—	—	—	(1,029)	—
Other	—	(36)	—	—	—	—	(36)
Increase in temporarily restricted net assets	1,029	1,029	—	—	—	(1,029)	1,029
Balance, June 30, 2012	$ 6,157	$ 6,157	$ —	$ —	$ —	$ (6,157)	$ 6,157
Permanently restricted:							
Balance, June 30, 2011	$ 3,582	$ 3,582	$ —	$ —	$ —	$ (3,582)	$ 3,582
Contributions restricted by donor	—	—	—	—	—	—	—
Increase in permanently restricted net assets	—	—	—	—	—	—	—
Balance, June 30, 2012	$ 3,582	$ 3,582	$ —	$ —	$ —	$ (3,582)	$ 3,582

See accompanying independent auditors' report.

ALEGENT HEALTH AND RELATED ENTITIES

Combining Statement of Changes in Net Assets Information

Year ended June 30, 2012

(Amounts in thousands)

	Alegent Health—Bergan Mercy Health System and Affiliates Consolidated	Alegent Health—Immanuel Medical Center and Affiliates Consolidated	Alegent Health and Affiliates Consolidated	Eliminations	Alegent Health and Related Entities Combined
Unrestricted:					
Balance, June 30, 2011	$ 503,561	$ 470,148	$ 91,608	$ (91,608)	$ 973,709
Excess of revenues over expenses	13,632	32,151	10,512	(10,512)	45,783
Contributions for the purchase of property and equipment	4	24	51	—	79
Net assets released from restrictions for the purchase of property and equipment	990	—	—	—	990
Joint operating agreement adjustment – capital expenditures	330	(330)	—	—	—
Liability for pension benefits adjustment	—	—	(18,986)	—	(18,986)
Transfers (to) from other Alegent affiliates	18,679	18,679	(37,358)	—	—
Equity in other changes in unrestricted net assets of Alegent Health	(28,079)	(28,080)	—	56,159	—
Other	—	(48)	134	—	86
Increase (decrease) in unrestricted net assets	5,556	22,396	(45,647)	45,647	27,952
Balance, June 30, 2012	$ 509,117	$ 492,544	$ 45,961	$ (45,961)	$ 1,001,661
Temporarily restricted:					
Balance, June 30, 2011	$ 3,607	$ 2,785	$ 5,128	$ (5,128)	$ 6,392
Restricted interest and investment income, net	—	—	224	—	224
Net assets released from restrictions for use in operations	(19)	(41)	(353)	—	(413)
Net assets released from restrictions for the purchase of property and equipment	(990)	—	—	—	(990)
Change in unrealized gains and losses on investments, net		19	(134)	—	(115)
Contributions restricted by donor	63	70	1,328	—	1,461
Equity in other changes in temporarily restricted net assets of Alegent Health	514	515	—	(1,029)	—
Other	—	—	(36)	—	(36)
Increase (decrease) in temporarily restricted net assets	(432)	563	1,029	(1,029)	131
Balance, June 30, 2012	$ 3,175	$ 3,348	$ 6,157	$ (6,157)	$ 6,523
Permanently restricted:					
Balance, June 30, 2011	$ 1,791	$ 2,047	$ 3,582	$ (3,582)	$ 3,838
Contributions restricted by donor	—	—	—	—	—
Increase in permanently restricted net assets	—	—	—	—	—
Balance, June 30, 2012	$ 1,791	$ 2,047	$ 3,582	$ (3,582)	$ 3,838

See accompanying independent auditors' report.

APPENDIX E

SUMMARY OF PRINCIPAL DOCUMENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

SUMMARY OF PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the Bond Indenture and the Capital Obligation Document. These summaries do not purport to be and are not a complete description of the terms of these documents, and, accordingly, are qualified by reference thereto and are subject to the full text thereof. Copies of these documents may be obtained from the Bond Trustee or the Underwriters.

Definitions

"**Accelerable Instrument**" means any Obligation or any mortgage, indenture, loan agreement or other instrument under which there has been issued or incurred, or by which there is secured, any Indebtedness evidenced by an Obligation, which Obligation or instrument provides that, upon the occurrence of an event of default under such Obligation or instrument, the holder thereof may request that the CHI Trustee declare such Obligation or Indebtedness due and payable prior to the date on which it would otherwise become due and payable.

"**Accountant**" means any independent certified public accountant or firm of such accountants selected by the Corporation.

"**Additional Bonds**" means bonds issued under the Bond Indenture subsequent to the initial issuance of the Catholic Health Initiatives Taxable Bonds, Series 2012 that are consolidated with such bonds.

"Authorized Denomination" means $1,000 or any integral multiple thereof.

"**Authorized Representative**" means the Chairperson of the Corporations' Governing Body or its chief executive officer or its chief financial officer, or any other person or persons designated as an Authorized Representative of the Corporation by resolution of the Governing Body or by a Certificate of the Corporation signed by the Chairperson of its Governing Body or its chief executive officer or chief financial officer, and filed with the Bond Trustee.

"**Bond Obligation**" means the Series 2012 Obligation.

"**Bond Trustee**" means Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States of America, acting in its capacity as Bond Trustee under the Bond Indenture, having its Principal Corporate Trust Office in Minneapolis, Minnesota, or its successor as trustee as provided in the Bond Indenture.

"**Book Value**," when used with respect to Property, means the value of such Property, net of accumulated depreciation and amortization, as reflected in the most recent consolidated audited financial statements of the Corporation which have been prepared in accordance with generally accepted accounting principles, provided that such aggregate shall be calculated in such a manner that no portion of the value of any Property is included more than once.

"**Business Day,**" when used with respect to the Capital Obligation Document, means a day which is not (a) a Saturday, Sunday or legal holiday on which banking institutions in the states where the principal corporate office of the Corporation or the principal corporate office of the CHI Trustee are located are authorized by law to close or (b) a day on which the New York Stock Exchange is closed.

"**Business Day**," when used with respect to all matters pertaining to the Bonds, means a day which is not (a) a Saturday, Sunday or legal holiday on which banking institutions in the states where the principal corporate office of the Corporation or the Principal Corporate Trust Office of the Bond Trustee is located are authorized by law to close or (b) a day on which the New York Stock Exchange or the Federal Reserve Bank is closed.

"**Capitalized Lease**" means any lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the lessee.

"**Capitalized Rentals**" means, as of the date of determination, the amount at which the aggregate Net Rentals due and to become due under a Capitalized Lease under which a Person is a lessee would be reflected as a liability on a balance sheet of such Person.

"**Certificate**," "**Statement**," **"Request,"** "**Requisition**" and "**Order**" of the Corporation mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Corporation by an Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

"**CHI Credit Group**" means, collectively, the Corporation and the other Members of the Obligated Group, the Participants and the Designated Affiliates.

"**CHI Reporting Group**" means, collectively, the Corporation and any other Members of the Obligated Group, the Participants, the Material Designated Affiliates, and any other Designated Affiliate which the Corporation chooses to include in the financial statements prepared pursuant to the Capital Obligation Document. The CHI Reporting Group shall at all times include such Persons who, collectively with the Corporation, any other Members of the Obligated Group and the Participants, represent at least 75% of the total revenues or total assets of the CHI Credit Group, as determined based upon the most recent financial statements delivered pursuant to the Capital Obligation Document.

"**CHI Trustee**" means Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States of America, or its successor, as trustee under the Capital Obligation Document.

"**Code**" means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, promulgated thereunder.

"**Consultant**" means a professional consulting, accounting, investment banking or commercial banking firm selected by the Corporation and not unacceptable to the CHI Trustee, having the skill and experience necessary to render the particular report required and having a favorable and nationally recognized reputation for such skill and experience, which firm does not control any member of the CHI Credit Group and is not controlled by or under common control with any member of the CHI Credit Group.

"**Continuing Disclosure Agreement**" means any agreement between the Corporation and any Person acting as dissemination agent whereby financial and other information about the Corporation and the CHI Credit Group is periodically made available to the public.

"**Corporation**" or "**CHI**" means Catholic Health Initiatives, a nonprofit corporation duly organized and existing under the laws of the State of Colorado, or any entity which is the surviving, resulting or transferee entity in any merger, consolidation or transfer of assets permitted under the Capital Obligation Document.

"**Counsel**" means an attorney duly admitted to practice law in any state and, without limitation, may include legal counsel for the Corporation, any member of the CHI Credit Group, the CHI Trustee or the Related Bond Trustee.

"**Current Value**" means the fair market value of Property, which fair market value shall be evidenced in a manner not unacceptable to the CHI Trustee.

"**Date of Issue**" means the date of original issuance of the Bonds.

"**Debt Service Requirements**" means, with respect to the period of time for which calculated, the aggregate of the payments required to be made during such period in respect of principal (whether at maturity, as a result of mandatory sinking fund redemption, mandatory prepayment or otherwise) and interest on outstanding

Long-Term Indebtedness of each Person or a group of Persons with respect to which calculated; provided that: (a) interest shall be excluded from the determination of the Debt Service Requirements to the extent that Escrowed Interest is available to pay such interest; and (b) principal of Indebtedness shall be excluded from the determination of Debt Service Requirements to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied to pay such principal and such amounts so required to be applied are sufficient to pay such principal.

"Defeasance Securities" means (a) direct obligations of (including obligations issued or held in book-entry form on the books of the Department of Treasury of), or obligations the timely payment of the principal of and interest on which is fully guaranteed by, the United States of America, (b) obligations (including participation certificates) issued or guaranteed by an agency of the United States of America or Person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, including but not limited to Senior Obligations of the Federal Home Loan Mortgage Corporation, Federal Home Loan Banks, the Farm Credit System and the Federal National Mortgage Association, and (c) any Investment Securities that, as of the date of their deposit pursuant to the Bond Indenture, (i) may be used for the defeasance of the Bonds in accordance with State law and (ii) are approved by the Rating Agencies providing ratings on the Bonds for defeasance escrow deposits for bonds that upon being so defeased shall have highest ratings given by such Rating Agencies.

"**Designated Affiliate**" means any Person that has been designated as such in accordance with the Capital Obligation Document so long as such Person's status as a Designated Affiliate has not been terminated as provided in the Capital Obligation Document.

"**Effective Date**" means November 25, 1997, the date of execution and delivery of the Capital Obligation Document.

"Electronic Notice" means a notice transmitted through email, facsimile or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

"**Escheat Period**" means the period of time commencing on the date of payment of the principal of, or premium or interest on a redemption of an Obligation and ending on the date with is six months prior to the period of time set forth under the governing state statute regarding escheatment of funds.

"**Escrow Obligations**" means, (a) with respect to any Obligation which secures a series of Related Bonds, the obligations permitted to be used to defease such series of Related Bonds under the Related Bond Indenture, or (b) with respect to any other Obligation, those securities identified in the Supplemental Obligation Document pursuant to which such Obligations were issued.

"**Escrowed Interest**" means amounts irrevocably deposited in escrow to pay interest on Long-Term Indebtedness or Related Bonds and interest earned on amounts irrevocably deposited in escrow to the extent such interest earned is required to be applied to pay interest on Long-Term Indebtedness or Related Bonds.

"**Ethical and Religious Directives**" means Ethical and Religious Directives for Catholic Health Care Facilities, as promulgated from time to time by the National Conference of Catholic Bishops of the Roman Catholic Church. If the National Conference of Catholic Bishops shall cease to exist, "Ethical and Religious Directives" shall mean such similar directives promulgated by its successor organization, or by such organization then exercising its powers and duties, or by the Roman Catholic Church.

"**Existing Obligations**" means those notes listed on Exhibit A to the Capital Obligation Document, in each case issued under or designated as notes under the Original CHC Master Indenture, and which remain outstanding as Obligations of the Corporation under the Capital Obligation Document.

"**Facilities**" means all land, leasehold interests and buildings and all fixtures and equipment (as defined in the Uniform Commercial Code or equivalent statute in effect in the state where such fixtures or equipment are located) of a Person.

"**Fiscal Year**" means, with respect to the Corporation, any twelve-month period beginning on July 1 of any calendar year and ending on June 30 of the following calendar year or such other consecutive twelve-month period selected by the Corporation from time to time as the fiscal year for the Corporation, and means, with respect to any other Person, the consecutive twelve-month period selected by such Person as the Fiscal Year for such Person.

"**Fitch**" means Fitch, Inc., a corporation organized and existing under the laws of the State of New York, and its successors and assigns.

"**Governing Body**" means the Corporation's Board of Stewardship Trustees or a similar group in which the right to exercise the powers of corporate directors or trustees is vested, or an executive committee of such board, or any duly authorized committee of such board to which the relevant powers of such board have been lawfully delegated.

"**Guaranty**" means all obligations of a Person guaranteeing, or in effect guaranteeing, any Indebtedness or other obligation of any primary obligor in any manner, whether directly or indirectly including but not limited to obligations incurred through an agreement, contingent or otherwise, by such Person: (a) to purchase such Indebtedness or obligation or any Property constituting security therefor; (b) to advance or supply funds: (i) for the purchase or payment of such Indebtedness or obligation, or (ii) to maintain working capital or other balance sheet condition; (c) to purchase securities or other Property or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of the primary obligor to make payment of the Indebtedness or obligation; or (d) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof.

"**Hedging Transaction**" means an agreement, expressly identified in an Officer's Certificate delivered to the CHI Trustee as being entered into in order to hedge the interest payable on all or a portion of any Indebtedness, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g., a call, put, cap, floor or collar) and which agreement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof.

"**Historical Debt Service Coverage Ratio**" means, for any period of time, the ratio determined by dividing (a) Income Available for Debt Service for that period by (b) the Debt Service Requirements on Long-Term Indebtedness for such period; provided that, when such calculation is being made with respect to the Corporation and the CHI Credit Group, Income Available for Debt Service and Debt Service Requirements shall be determined only with respect to the Corporation and those Persons who are Participants and Material Designated Affiliates at the close of such period.

"**Holder**" means, whenever used with respect to a Bond, the Person in whose name such Bond is registered.

"**Income Available for Debt Service**" means, for any period, the excess of (a) revenues calculated under generally accepted accounting principles of the Person or group of Persons involved over (b) the aggregate of all expenses calculated under generally accepted accounting principles, including without limitation any taxes, incurred by the Person or group of Persons involved during such period, less (i) interest on Long-Term Indebtedness, (ii) depreciation and amortization, (iii) extraordinary expenses (including without limitation losses on the sale of assets other than in the ordinary course of business and losses on the extinguishment of debt), (iv) losses resulting from any reappraisal, revaluation or write-down of assets and (v) any items which would be considered by the Corporation to be non-cash items of the Person or group of Persons involved in accordance with generally accepted accounting principles.

"**Indebtedness**" means, for any Person, (a) indebtedness incurred or assumed by such Person for borrowed money or for the acquisition of Property, other than goods that are acquired in the ordinary course of business of such Person; (b) Capitalized Rentals of such Person; and (c) all Guaranties by such Person, and shall include Non-

Recourse Indebtedness; provided that Indebtedness shall not include Indebtedness of one member of the CHI Credit Group owed to another member of the CHI Credit Group, any Guaranty by any member of the CHI Credit Group of Indebtedness of any other member of the CHI Credit Group, any Hedging Transaction or any obligation to repay moneys deposited by patients or others with a member of the CHI Credit Group as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to endowment or similar funds deposited by or on behalf of such residents.

"**Interest Payment Date**" means May 1 and November 1, commencing May 1, 2013.

"Investment Securities" means any of the following that at the time are legal investments under the laws of the State for moneys held under the Bond Indenture and then proposed to be invested therein provided that, unless higher ratings are specified in a particular subsection of this definition, if such Investment Securities have a maturity of more than one year, have a long term rating equal to or higher than the ratings on the Bonds from Standard & Poor's and Moody's or, if such Investment Securities have a maturity of less than one year, have a short-term rating of at least "A-1+" by Standard & Poor's and "P-1" by Moody's:

(a) direct obligations (including obligations issued or held in book-entry form on the books of the Department of Treasury) of, or obligations the timely payment of the principal of and interest on which is fully guaranteed by, the United States of America;

(b) bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies or any other like governmental or government-sponsored agencies that are created after the date of the Bond Indenture: Federal Farm Credit Bank; Federal Intermediate Credit Banks; Federal Financing Bank; Federal Home Loan Bank System; Federal Home Loan Mortgage Corporation; Federal National Mortgage Association; Tennessee Valley Authority; Student Loan Marketing Association; Export-Import Bank of the United States; Farmers Home Administration; Small Business Administration; Inter-American Development Bank; International Bank for Reconstruction and Development; Federal Land Banks; and Government National Mortgage Association;

(c) direct and general obligations of any state of the United States of America or any municipality or political subdivision of such state, or obligations of any corporation, if such obligations are rated in one of the two highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds);

(d) commercial paper rated in the highest Rating Category by each Rating Agency then rating both the Bonds and such commercial paper (but in all cases by at least one Rating Agency then rating the Bonds);

(e) negotiable or non-negotiable certificates of deposit, time deposits, or other similar banking arrangements, issued by any bank or trust company or any savings and loan association, and either (i) the long-term obligations of such bank or trust company are rated in the highest Rating Category by each Rating Agency then rating both the Bonds and such obligations (but in all events by at least one Rating Agency then rating the Bonds), or (ii) the deposits or other arrangements are continuously secured as to principal, but only to the extent not insured by the Federal Deposit Insurance Corporation or similar corporation chartered by the United States of America, (1) by depositing with a bank or trust company, as collateral security, obligations described in paragraph (a) or (b) above in an aggregate principal amount equal to a least 105% of the amount so deposited or, with the approval of the Bond Trustee, other marketable securities eligible as securities for the deposit of trust funds under applicable regulations of the Comptroller of the Currency of the United States or applicable state law or regulations, having a market value (exclusive of accrued interest) not less than the amount of such deposit, or (2) if the furnishing of security as provided in clause (1) of this paragraph is not permitted by applicable law, in such other manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds;

(f) repurchase agreements with respect to obligations listed in paragraph (a) or (b) above if entered into with a bank, a trust company or a broker or dealer (as defined by the Securities Exchange Act of 1934, as amended) that is a dealer in government bonds, that reports to, trades with and is recognized as a primary dealer by a Federal Reserve Bank, if such obligations that are the subject of such repurchase agreement are delivered to the Bond Trustee or are supported by a safekeeping receipt issued by a depository (other than the Bond Trustee) satisfactory to the Bond Trustee, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated no less frequently than monthly, of not less than the repurchase price;

(g) shares or certificates in any short-term investment fund that is maintained or utilized by the Bond Trustee and which fund invests solely in other Investment Securities;

(h) investment agreements with any financial institution that at the time of execution of the investment agreement has long-term obligations rated in one of the three highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds);

(i) shares or certificates in any mutual fund invested solely in Investment Securities described in clauses (a) through (h) of this definition;

(j) obligations of any corporation, partnership, trust or other entity which are rated in one of the two highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds); and

(k) any other securities, investments, investment agreements or other obligations specified by the Corporation to the Bond Trustee in writing.

Ratings of Investment Securities referred to herein shall be determined at the time of purchase of such Investment Securities and without regard to ratings subcategories. The Bond Trustee shall have no responsibility to monitor the ratings of Investment Securities after the initial purchase of such Investment Securities.

"**Lien**" means any mortgage or pledge or lease of, security interest in or lien, charge, restriction or encumbrance on any Property of the Person involved in favor of, or which secures any obligation to, any Person.

"**Long-Term Indebtedness**" means, with respect to any Person, all Indebtedness of such Person which is not Short-Term.

"**Mandatory Sinking Account Payment**" means, with respect to Term Bonds of any maturity, the amount required by the Bond Indenture to be paid by the Corporation on any single date for the retirement of Bonds of such maturity.

"**Material Designated Affiliate**" means any Designated Affiliate whose total revenues as set forth on its financial statements for the most recently completed Fiscal Year for such Designated Affiliate exceed 5% of the combined total revenues of the Corporation and the Participants as set forth on the combined financial statements for the most recently completed Fiscal Year of the Corporation.

"**Member**" or "**Member of the Obligated Group**" means the Corporation and any Person who is designated as a Member of the Obligated Group pursuant to the terms of the Capital Obligation Document.

"**Moody's**" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns.

"**Net Rentals**" means all fixed rents (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the Property other than upon termination of the lease for a default thereunder) payable under a lease or sublease of real or personal Property excluding any amounts required to be paid by the lessee (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Net Rentals for any future period under any so-called "percentage lease" shall be computed on the basis of the amount reasonably estimated to be payable thereunder for such period, but in any event not less than the amount paid or payable thereunder during the immediately preceding period of the same duration as such future period; provided that the amount estimated to be payable under any such percentage lease shall in all cases recognize any change in the applicable percentage called for by the terms of such lease.

"**Non-Recourse Indebtedness**" means any Indebtedness the liability for which is effectively limited to Property, Plant and Equipment and the income therefrom, the cost of which Property, Plant and Equipment shall have been financed in whole or in part with the proceeds of such Indebtedness with no recourse, directly or indirectly, to any other Property of the obligor thereon.

"**Obligated Group**" means the Corporation and any other Person which has fulfilled the requirements for entry into the Obligated Group set forth in the Capital Obligation Document and which has not ceased such status pursuant to the Capital Obligation Document.

"**Obligated Group Agent**" means the Corporation or such other Member as may be designated from time to time pursuant to written notice to the CHI Trustee executed by an authorized officer of the Corporation or, if the Corporation is no longer a Member of the Obligated Group, of each Member of the Obligated Group.

"**Obligation holder**," "**holder**" or **"owner of the Obligation**" means the registered owner of any fully registered Obligation unless alternative provision is made in the Supplemental Obligation Document pursuant to which such Obligation is issued for establishing ownership, including beneficial ownership, of such Obligation, in which case such alternative provision shall control.

"**Obligations**" means the Existing Obligations and any obligation of the Obligated Group issued under the Capital Obligation Document, as a joint and several obligation of each Member, which may be in any form set forth in a Supplemental Obligation Document, including but not limited to, promissory notes, guarantees, bonds, obligations, debentures, reimbursement agreements, loan agreements, leases and Hedging Transactions, each of which has been authenticated by the CHI Trustee pursuant to the Capital Obligation Document.

"**Officer's Certificate**" means a certificate signed, in the case of a certificate delivered by a corporation, by any officer authorized to sign by law or pursuant to the corporation's bylaws or board resolution or, in the case of a certificate delivered by any other Person, the chief executive or chief financial officer of such other Person or any other officer authorized to sign on behalf of such other Person.

"**Opinion of Counsel**" means a written opinion of counsel (who may be counsel for the Corporation) selected by the Corporation or the Bond Trustee.

"**Original CHC Master Indenture**" means the Master Trust Indenture dated as of February 1, 1984 (Revised Form) among the Corporation, formerly known as Catholic Health Corporation, the other Persons identified therein as participants and The First National Bank of Omaha, as trustee, as amended and supplemented.

"**Outstanding**" means, in the case of Indebtedness of a Person and all Obligations issued under the Capital Obligation Document (regardless of whether any such Obligations secure Indebtedness) (a) all such Indebtedness of such Person which has been incurred or Obligations which have been issued except any such portion thereof canceled or surrendered for cancellation or because of payment at or redemption or prepayment prior to maturity in accordance with the provisions in the Related Bond Indenture, Supplemental Obligation Document or other document under which the Indebtedness was incurred or the Obligation was issued containing requirements regarding prepayment or redemption prior to maturity, (b) any such Indebtedness or Obligations in lieu of which other Indebtedness has been duly incurred or other Obligations have been issued and (c) any such Indebtedness or Obligation which is no longer deemed outstanding pursuant to its terms and with respect to which such Person is no longer liable under the terms of such Indebtedness or such Obligation. For the purpose of all consents, approvals, waivers and notices required to be obtained or given under the Capital Obligation Document, Obligations held or owned by the Corporation or any member of the CHI Credit Group shall not be considered Outstanding. Notwithstanding the foregoing, any Obligation securing Related Bonds shall be deemed Outstanding if such Related Bonds are Outstanding.

"**Outstanding**," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Bond Indenture relating to disqualified Bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Bond Trustee under the Bond Indenture except:

(a) Bonds theretofore canceled by the Bond Trustee or delivered to the Bond Trustee for cancellation;

(b) Bonds with respect to which all liability of the Corporation shall have been discharged in accordance with the defeasance provisions of the Bond Indenture, including Bonds (or portions of Bonds) referred to in the provisions of the Bond Indenture relating to money held for particular Bonds; and

(c) Bonds for the transfer or exchange of, or in lieu of or in substitution for which, other Bonds shall have been authenticated and delivered by the Bond Trustee pursuant to the Bond Indenture.

"**Participant**" means a Person, the financial statements of which are required, under generally accepted accounting principles, to be combined into the financial statements of the Corporation.

"**Paying Agent**" means the financial institution or institutions, if any, designated in an Obligation or a Related Bond Indenture to receive and disburse the principal of and premium, if any, and interest on any Related Bonds or designated pursuant to the Capital Obligation Document to receive and disburse the principal of and premium, if any, and interest or any other amounts payable on or with respect to any Obligations.

"**Permitted Encumbrances**" means Liens, if any, created by the Capital Obligation Document, any Related Loan Document, any Related Bond Indenture and, as of any particular time, any Lien:

(a) on Property existing on the Effective Date securing the Existing Obligations, provided that the principal amount of Indebtedness secured thereby may not be increased and that such Liens may not be extended, renewed or modified to any Property not subject to such Lien on the Effective Date unless such Lien as so extended, renewed or modified is otherwise permitted under the Capital Obligation Document;

(b) on Property acquired subject to an existing Lien, if at the time of such acquisition, the aggregate amount remaining unpaid on the Indebtedness secured thereby (whether or not assumed) does not exceed the fair market value or (if such Property has been purchased) the lesser of the acquisition price or the fair market value of the Property subject to such Lien;

(c) on Property of the Corporation or any member of the CHI Credit Group granted in favor of or securing Indebtedness to the Corporation or any other member of the CHI Credit Group;

(d) on Property if such Lien equally and ratably secures all of the Obligations and, if the Corporation shall so determine, any other Indebtedness of any member of the CHI Credit Group;

(e) on Property given, granted, bequeathed or devised by the owner thereof existing at the time of such gift, grant, bequest or devise, provided that such Liens secure Indebtedness which is not assumed by the Corporation or any member of the CHI Credit Group and such Liens attach solely to the Property (including the income therefrom) which is the subject of such gift, grant, bequest or devise;

(f) on proceeds of Related Bonds or other Indebtedness (or on income from the investment of such proceeds) that secure payment of such Related Bonds or other Indebtedness or the provider of any liquidity or credit support for such Related Bond or Indebtedness and any security interest in any rebate fund, any depreciation reserve fund, debt service fund or interest reserve fund, debt service reserve fund or any similar fund established pursuant to the terms of any Supplemental Obligation Document, Related Bond Indenture or Related Loan Document in favor of the CHI Trustee, a Related Bond Trustee, a Related Issuer or the holder of the Related Bonds or other Indebtedness issued or incurred pursuant to such Supplemental Obligation Document, Related Bond Indenture or Related Loan Document;

(g) on Escrow Obligations;

(h) on any Related Bond or any evidence of Indebtedness of the Corporation or any member of the CHI Credit Group acquired by or on behalf of the Corporation or any member of the CHI Credit Group by the provider of liquidity or credit support for such Related Bond or Indebtedness;

(i) on accounts receivable arising as a result of the sale of such accounts receivable with recourse;

(j) on any Property existing at the time any Person becomes a member of the CHI Credit Group; provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of such member of the CHI Credit Group not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Capital Obligation Document;

(k) on Property of a Person existing at the time such Person is merged into or consolidated with the Corporation or a member of the CHI Credit Group, or at the time of a sale, lease or other disposition of the properties of a Person as an entirety or substantially as an entirety to the Corporation or a member of the CHI Credit Group which becomes part of Property that secures Indebtedness that is assumed by the Corporation or a member of the CHI Credit Group as a result of any such merger, consolidation or acquisition; provided, that no such Lien may be increased, extended, renewed, or modified after such date to apply to any Property of the Corporation or a member of the CHI Credit Group not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Capital Obligation Document;

(l) which secure Non-Recourse Indebtedness;

(m) arising out of Capitalized Leases; and

(n) on Property securing Indebtedness, in addition to those described in clauses (a) through (m) of this definition of Permitted Encumbrances, if the total aggregate Book Value (or at the option of the Corporation, Current Value) of the Property subject to a Lien of the type described in this subsection (n) does not exceed 25% of the Book Value of Property, Plant and Equipment of the CHI Credit Group.

"**Permitted Investments**" shall mean (a) with respect to any Obligation which secures a series of Related Bonds, the obligations in which the Related Bond Trustee may invest funds under the Related Bond Indenture, (b) with respect to any Obligations for which a Supplemental Obligation Document specifies certain permitted investments, the investments so specified and (c) in all other cases such legal and prudent investments as are directed by the Corporation.

"**Person**" means any natural person, firm, joint venture, association, partnership, business trust, corporation, limited liability company, public body, agency or political subdivision thereof or any other similar entity.

"**Principal Corporate Trust Office**" means the office or offices of the Bond Trustee at which the corporate trust services relating to the Bonds are performed, which on the date hereof is located in Minneapolis, Minnesota.

"**Principal Payment Date**" means each date on which principal of the Bonds is required to be paid (whether by reason of maturity, redemption or acceleration).

"**Property**" means any and all rights, titles and interests in and to any and all property, whether real or personal, tangible (including cash) or intangible, wherever situated and whether owned as of the date of the Capital Obligation Document or acquired after the date thereof.

"**Property, Plant and Equipment**" means Property of a Person which is classified as property, plant and equipment under generally accepted accounting principles.

"**Rating Agency**" means Moody's, Fitch or Standard & Poor's and any other Person existing as of the date of, or created after the date of, the Bond Indenture or the Capital Obligation Document (as applicable) meeting the criteria established by the Securities and Exchange Commission as a "rating agency."

"**Rating Category**" means one of the general rating categories of any Rating Agency, without regard to any refinement or gradation of such Rating Category by a numerical modifier or otherwise.

"**Record Date**" means the fifteenth (15th) day of the calendar month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

"**Related Bond Indenture**" means any indenture, bond resolution or similar instrument pursuant to which any series of Related Bonds is issued.

"**Related Bonds**" means (a) any revenue bonds or similar obligations issued by any state, commonwealth or territory of the United States or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority, agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, the proceeds of which are loaned or otherwise made available to the Corporation or any member of the CHI Credit Group in consideration, whether in whole or in part, of the execution, authentication and delivery of an Obligation or Obligations to such governmental issuer, the holder of such revenue bonds or similar obligations or the Related Bond Trustee and (b) any revenue or general obligation bonds issued by any member of the CHI Credit Group or any other Person in consideration, whether in whole or in part, of the execution, authentication and delivery of an Obligation or Obligations to the holder of such bonds or the Related Bond Trustee.

"**Related Bond Trustee**" means any trustee under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under a Related Bond Indenture, the Related Issuer.

"**Related Issuer**" means any issuer of a series of Related Bonds.

"**Related Loan Document**" means any document or documents (including without limitation any loan agreement, lease, sublease or installment sales contract) pursuant to which any proceeds of any Related Bonds are loaned to or used for the benefit of the Corporation or any member of the CHI Credit Group, or any Property financed or refinanced with such proceeds is leased, sublet or sold to the Corporation or any member of the CHI Credit Group.

"**Required Payments**" means any payment, whether at maturity, by acceleration, upon proceeding for prepayment or redemption, upon tender for purchase under a Related Bond Indenture or a Related Loan Document or otherwise, required to be made by any Member under the Capital Obligation Document, any Supplemental Obligation Document or any Obligation.

"**Securities Depository**" means The Depository Trust Company, and its successors and assigns, or if the then-acting Securities Depository ceases to serve in such capacity, as described in the Bond Indenture, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds that is selected by the Corporation.

"**Short-Term**," when used in connection with Indebtedness, means Indebtedness of a Person having an original maturity less than or equal to one year and not renewable at the option of the debtor for, or subject to any binding commitment to refinance or otherwise provide for such Indebtedness having, a term greater than one year beyond the date of original issuance.

"**Special Record Date**" means the date established by the Bond Trustee pursuant to the Bond Indenture as a record date for the payment of defaulted interest on Bonds.

"**Standard & Poor's**" means Standard & Poor's Rating Services, a business of Standard & Poor's Financial Services LLC, a limited liability company organized and existing under the laws of the State of Delaware, and its successors and assigns.

"**State**" means the State of Colorado.

"**Supplemental Indenture**" means any indenture duly authorized and entered into between the Corporation and the Bond Trustee after the date of the Bond Indenture, supplementing, modifying or amending the Bond Indenture in accordance therewith.

"**Supplemental Obligation Document**" means an indenture amending or supplementing the Capital Obligation Document entered into pursuant to the Capital Obligation Document after the Effective Date.

"**Unrestricted Cash**" means cash, cash equivalent deposits and any marketable securities that are unrestricted in accordance with generally accepted accounting principles.

"**Written Request**" means with reference to a Related Issuer or the Corporation, a request in writing signed by an authorized officer of the Related Issuer or the Corporation, respectively.

Summary of Bond Indenture

Terms of the Bonds. The Bonds may be issued only as registered Bonds in Authorized Denominations. Interest on the Bonds (calculated on a 360-day year with twelve 30-day months) shall be payable on each Interest Payment Date.

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred upon the registration books required to be kept pursuant to the provisions of the Bond Indenture, by the person in whose name it is registered, in person or by his attorney duly authorized in writing, upon surrender of such Bond for cancellation at the Principal Corporate Trust Office of the Bond Trustee, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Bond Trustee. The Bond Trustee shall require the Holder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. In no event shall any Bond selected by the Bond Trustee for redemption be transferred.

Exchange of Bonds. Bonds may be exchanged at the Principal Corporate Trust Office of the Bond Trustee for a like aggregate principal amount of Bonds of any Authorized Denomination of the same maturity. The Bond Trustee shall require the Holder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. In no event shall any Bond selected by the Bond Trustee for redemption be exchanged.

Bond Register. The Bond Trustee will keep or cause to be kept sufficient books for the registration, transfer and exchange of the Bonds, which shall be open to inspection by the Corporation during normal business hours; and, upon presentation of any Bonds for such purpose, the Bond Trustee shall, under such reasonable procedures as it may prescribe, register, transfer or exchange, or cause to be registered, transferred or exchanged, such Bonds on such books as provided in the Bond Indenture. The Bond Trustee and the Corporation are permitted by the Bond Indenture to treat and consider the Person in whose name each Bond is registered in the registration books kept by the Bond Trustee as the absolute Holder thereof for all purposes, and the Corporation and the Bond Trustee shall not be affected by any notice to the contrary.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Corporation, at the expense of the Holder of said Bond, shall execute, and the Bond Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Bond Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Bond Trustee shall be canceled by it in accordance with its customary procedures. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Bond Trustee and the Corporation and, if such evidence is satisfactory to each of them and indemnity satisfactory to the Corporation and the Bond Trustee shall be given to each of them, the Corporation shall execute and the Bond Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen; provided that if any such Bond shall have matured or shall be about to mature, instead of issuing a substitute Bond, the Bond Trustee may pay the same without surrender thereof. The Corporation may require payment by the Holder of a sum not exceeding the actual cost of preparing each new Bond issued and of the expenses (including fees of counsel) which may be incurred by the Corporation and the Bond Trustee. Any Bond issued in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Corporation, whether or not the Bond so alleged to be lost, destroyed or stolen is at any time enforceable by anyone, and shall be entitled to the benefits of the Bond Indenture with all other Bonds secured by the Bond Indenture.

Additional Bonds.

(a) Additional Bonds may be issued under the Bond Indenture if authorized by a Supplemental Indenture. Any Additional Bonds so authorized from time to time shall be in such amounts as directed by the Corporation, executed by the Corporation and authenticated by the Bond Trustee and delivered to or upon the order of the Corporation upon receipt of the consideration therefore. Each Supplemental Indenture authorizing the issuance of Additional Bonds shall specify the following:

(1) the authorized principal amount of Additional Bonds to be issued;

(2) the purpose for which the Additional Bonds are to be issued;

(3) the first Interest Payment Date for the Additional Bonds;

(4) directions for the application of the proceeds of the Additional Bonds; and

(5) such other provisions as the Corporation deems advisable.

(b) Pursuant to the Bond Indenture, in connection with the issuance of Additional Bonds, the Corporation covenants and agrees that:

(1) Additional Bonds that are consolidated with the Catholic Health Initiatives Taxable Bonds, Series 2012 constitute a part of the Bonds;

(2) all such Additional Bonds shall mature on one of the maturity dates for the Bonds as set forth in the Bond Indenture, shall bear interest at the rate per annum for the Bonds corresponding to such maturity date and shall be subject to redemption at the same times and at the same Make-Whole Redemption Price as the Bonds of the same maturity;

(3) each Additional Bond to be consolidated with the Catholic Health Initiatives Taxable Bonds, Series 2012 shall be issued in Authorized Denominations; and

(4) as a condition to the issuance of such Additional Bonds, there shall be delivered to the Bond Trustee a certificate of the Corporation, certifying that, after consultation with counsel experienced in federal securities and tax laws, the issuance and consolidation of such Additional Bonds will not cause (i) any adverse tax impact on the Holders of then-Outstanding Catholic Health Initiatives Taxable Bonds, Series 2012 (ii) the then-Outstanding Catholic Health Initiatives Taxable Bonds, Series 2012 to be required to be registered under the Securities Act of 1933, as amended or (iii) the Bond Indenture to be required to be qualified under the Trust Indenture Act of 1939, as amended.

Establishment and Application of Costs of Issuance Fund. Under the Bond Indenture, there is established a fund designated as the "Costs of Issuance Fund." Moneys in the Costs of Issuance Fund are required by the Bond Indenture to be used for the purpose of paying the costs of issuing the Bonds upon the direction of the Corporation made within one year following the Date of Issue. Upon the earliest of (a) all amounts being paid out of the Costs of Issuance Fund, (b) receipt by the Bond Trustee of a Statement of the Corporation that all costs of issuing the Bonds have been paid and (c) the one year anniversary of the Date of Issue, any amounts remaining in the Costs of Issuance Fund are required by the Bond Indenture to be transferred to the Bond Fund, and the Costs of Issuance Fund shall thereafter be closed.

Establishment and Application of Bond Fund. Under the Bond Indenture, there is established a fund designated as the "Bond Fund." The money in the Bond Fund is required by the Bond Indenture to be held by the Bond Trustee in trust and applied pursuant to the Bond Indenture and, pending such application, the Bond Fund and the money therein shall be subject to a lien and charge in favor of the Bond Trustee for the benefit of the Holders and for the security of the Holders. All amounts in the Bond Fund are required by the Bond Indenture to be used and withdrawn by the Bond Trustee solely for the purpose of paying principal or Make-Whole Redemption Price of and interest on the Bonds, as the same shall become due and payable, whether at maturity or upon acceleration or redemption prior to maturity.

Punctual Payment. As long as any of the Bonds remain Outstanding, the Corporation agrees in the Bond Indenture to duly and punctually pay to the Bond Trustee the amount required for deposit into the Bond Fund, at or before 10:00 a.m., Denver, Colorado time, on (i) the first day of each November (with respect to payments of principal and Mandatory Sinking Account Payments), and (ii) the first day of each May and each November (with respect to payments of interest) in an amount equal to the amount necessary for the Bond Trustee to make the payments of principal and interest becoming due on the Bonds on such dates (whether by reason of maturity, redemption or otherwise) (the "Bond Payments"). In addition, the Corporation agrees in the Bond Indenture to duly and punctually pay, or cause to be paid, the principal or Make-Whole Redemption Price of and the interest on the Bond Obligation on the dates and at the places and in the manner mentioned therein. Notwithstanding any schedule of payments set forth in the Bond Obligation or in the Bond Indenture, the Corporation also agrees to make payments under the Bond Indenture and under the Bond Obligation, and be liable therefor, at the times and in the amounts to be paid as the principal or Make-Whole Redemption Price of and interest on the Bonds from time to time Outstanding under the Bond Indenture and other amounts required to be paid under the Bond Indenture, as the same shall become due, whether at maturity, upon redemption, by declaration of acceleration or otherwise.

Pledge of Bond Fund. (a) Subject only to the provisions of the Bond Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth therein, the Bond Fund and all amounts held therein are pledged and transferred by the Corporation to the Bond Trustee for the benefit of the Bondholders to secure the full payment of the principal or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of the Bond Indenture. The Corporation grants to the Bond Trustee a security interest in and acknowledges and agrees in the Bond Indenture that the Bond Fund and all amounts on deposit therein shall constitute collateral security to secure the full payment of the principal or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of the Bond Indenture. For purposes of creating, perfecting and maintaining the security interest of the Bond Trustee on behalf of the Bondholders in and to the Bond Fund and all amounts on deposit therein, the Corporation and the Bond Trustee agree in the Bond Indenture as follows:

(1) the Bond Indenture shall constitute a "security agreement" for purposes of the Uniform Commercial Code;

(2) the Bond Trustee shall maintain on its books records reflecting the interest, as set forth in the Bond Indenture, of the Bondholders in the Bond Fund and/or the amounts on deposit therein; and

(3) the Bond Fund and the amounts on deposit therein and any proceeds thereof shall be held by the Bond Trustee acting in its capacity as an agent of the Bondholders, and the holding of such items by the Bond Trustee (including the transfer of any items among the funds and accounts in the Bond Fund) is deemed possession of such items on behalf of the Bondholders.

(b) Nothing in the Bond Indenture or in the Bonds, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or otherwise in the assets of the Corporation other than in any interest of the Corporation in the Bond Fund and/or the amounts on deposit therein and as provided in the Bond Indenture. No recourse for the payment of the principal or Make-Whole Redemption Price of or interest on any Bond, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Corporation in the Bond Indenture or in any Supplemental Bond Indenture or in any Bond, or because of the creation of any indebtedness represented thereby, shall be had against any employee, agent, or officer, as such, past, present or future, of the Corporation or of any successor entity, either directly or through any successor entity, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, it being expressly understood that all such liability is expressly waived and released as a condition of, and as a consideration for, the execution of the Bond Indenture and the issuance of the Bonds.

(c) No officer or agent of the Corporation, nor any Person executing the Bonds, shall in any event be subject to any personal liability or accountability by reason of the issuance of the Bonds.

Use of Proceeds. The Corporation is required by the Bond Indenture to use the proceeds of the Bonds for purposes related to the qualification of the Corporation as an organization described in Section 501(c)(3) of the Code.

Maintenance of Corporate Existence of the Corporation; Consolidation, Affiliation, Merger, Sale or Transfer Under Certain Conditions. The Corporation agrees in the Bond Indenture that it will maintain its existence as a nonprofit corporation, and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it unless:

(a) The Corporation complies with the provision of the Capital Obligation Document summarized under the heading "Summary of the Capital Obligation Document - Merger, Consolidation, Sale or Conveyance" below; and

(b) The successor corporation:

(1) assumes in writing, if such corporation is not the Corporation, all of the obligations of the Corporation under the Bond Indenture; and

(2) is not, after such transaction, otherwise in default under any provisions of the Bond Indenture.

Expenses. The Corporation agrees in the Bond Indenture to pay and to indemnify the Bond Trustee against all costs and charges, including reasonable fees and expenses of attorneys, accountants, consultants and other experts, incurred by it in good faith and arising out of or in connection with the transactions contemplated by the Bond Indenture.

Securities Law Status. Pursuant to the Bond Indenture, the Corporation is not permitted to take any action or to omit to take any action if such action or omission would result in it no longer being an organization organized and operated exclusively for charitable purposes and not for pecuniary profit; with no part of its net earning inuring to the benefit of any Person, private stockholder or individual, all within the meaning of the Securities Act of 1933, as amended.

Corporation Financial Statements. The Corporation agrees in the Bond Indenture to furnish the Bond Trustee, within one hundred fifty (150) days after the end of each Fiscal Year, with copies of the audited combined financial statements of the Corporation and the Participants, together with (1) the report and opinion of an Accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that such Accountant's examination of the records of the Corporation and the Participants was performed in accordance with generally accepted auditing standards, and (2) a Certificate of the chief financial officer of the Corporation or another Authorized Representative stating that no event which constitutes a Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Corporation to cure such default. The Bond Trustee has no duty to review such financial statements.

Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts established pursuant to the Bond Indenture shall be invested by the Bond Trustee upon the direction of the Corporation, solely in Investment Securities.

All interest, profits and income received from the investment of moneys in any fund or account shall be credited to such fund or account or, at the direction of the Corporation, deposited in a different fund or account within the Bond Fund. Notwithstanding anything to the contrary contained in this paragraph, any amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account from which such accrued interest was paid.

For the purpose of determining the amount on deposit in any fund or account under the Bond Indenture, all Investment Securities credited to such fund or account shall be valued at par.

The Bond Trustee may commingle any of the funds or accounts established pursuant to the Bond Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Bond Trustee under the Bond Indenture shall be accounted for separately as required by the Bond Indenture. The Bond Trustee may purchase from or sell to itself or any affiliate of it as principal or agent in the making or disposing of any investment. The Bond Trustee is required by the Bond Indenture to sell at the best price reasonably obtainable, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and, subject to the provisions of the Bond Indenture regarding the liability of the Bond Trustee, the Bond Trustee shall not be liable or responsible for any loss resulting from such investment.

Against Encumbrances. The Corporation shall not create, or permit parties within its control to create, any pledge, lien, charge or other encumbrance upon all or any part or the Bond Fund or any other amounts or assets pledged under the Bond Indenture while any of the Bonds are Outstanding, except for the pledge created by the Bond Indenture and any statutory liens or other liens arising by operation of law. Subject to this limitation, the Corporation expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

Events of Default. The following events shall be Events of Default under the Bond Indenture:

(a) default in the due and punctual payment of the principal or Make-Whole Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise;

(b) default in the due and punctual payment of any interest on any Bond when and as such interest shall become due and payable;

(c) if the Corporation shall fail to observe or perform certain covenants, conditions, agreements or provisions specified in the Bond Indenture on its part to be observed or performed, other than as referred to in subparagraph (a) or (b) above, for a period of 60 days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the Bond Trustee, except that, if such failure or breach can be remedied, but not within such 60-day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such 60-day period, such failure or breach shall not become an Event of Default for so long as the Corporation shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Bond Trustee;

(d) an "Event of Default" under the Capital Obligation Document shall occur and be continuing; or

(e) if any material representation or warranty by the Corporation in the Bond Indenture or in any document, instrument or certificate furnished to the Bond Trustee in connection with the issuance of the Bond Obligation or the Bonds shall at any time prove to have been incorrect in any material respect as of the time made.

The Bond Trustee is required by the Bond Indenture, as soon as is practicable, but in any event within five days, to send notice to the CHI Trustee and the Corporation of the occurrence of any Event of Default of which the Bond Trustee has actual knowledge; provided that the Bond Trustee shall be deemed to have actual knowledge of any Event of Default described under subparagraphs (a) and (b) above on the day of any such Event of Default.

Acceleration of Maturities. (a) Upon the occurrence and during the continuation of any Event of Default, the Bond Trustee may, by written notice to the Corporation, declare the principal of the Bonds then-outstanding to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Bond Indenture or in the Bonds to the contrary notwithstanding.

(b) Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any final judgment or decree in any suit, action or other proceeding instituted for the payment of the moneys due shall have been obtained or entered, the Corporation shall deposit with the Bond Trustee a sum sufficient to pay all the principal or Make-Whole Redemption Price of and interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Bond Trustee, and any and all other defaults known to the Bond Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Bond Trustee, or provision deemed by the Bond Trustee to be adequate shall have been made therefor, then, and in every such case, the Bond Trustee shall, on behalf of the Holders of all of the Bonds, by written notice to the Corporation, rescind and annul such declaration and its consequences and waive such default, but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

(c) Upon the occurrence and during the continuation of an Event of Default, the Bond Trustee may take whatever action at law or in equity it deems necessary or desirable (1) to collect any amounts then due under the Bond Indenture, the Bonds, or the Bond Obligation, (2) to enforce performance of any obligation, agreement or covenant of the Corporation under the Bond Indenture, the Bonds, or the Bond Obligation, or (3) to otherwise enforce any of its rights.

(d) In the event that the CHI Trustee has accelerated the Bond Obligation and is pursuing its available remedies under the Capital Obligation Document, the Bond Trustee, without waiving any Event of Default under the Bond Indenture, agrees in the Bond Indenture that it shall not pursue its available remedies under the Bond Indenture in a manner that would hinder or frustrate the pursuit by the CHI Trustee of its remedies under the Capital Obligation Document; provided that the Bond Trustee is permitted under the Bond Indenture to take any action permitted to be taken by an Obligation holder under the Capital Obligation Document.

(e) Notwithstanding the foregoing or any other provision of the Bond Indenture or the Capital Obligation Document, the right of the Bond Trustee to receive payment of the Bond Obligation on and after the respective due dates expressed in the Bond Obligation, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of the CHI Trustee.

Application of Funds After Default. If an Event of Default shall occur and be continuing, all funds then held or thereafter received by the Bond Trustee under any of the provisions of the Bond Indenture (subject to requirements in the Bond Indenture relating to money held for particular Bonds) shall be applied by the Bond Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Bond Trustee to protect the interests of the Holders of the Bonds and payment of reasonable fees, charges and expenses of the Bond Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Bond Indenture;

(b) To the payment of the principal or Make-Whole Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment, if only partially paid, or surrender thereof, if fully paid), subject to the provisions of the Bond Indenture, as follows:

(i) Unless the principal of all the Bonds shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due and payable in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference, except as to any difference in the respective rates of interest specified in the Bonds;

Second: To the payment to the Persons entitled thereto of the unpaid principal or Make-Whole Redemption Price of any Bonds which shall have become due and payable, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds from the respective dates upon which such Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full all the principal or Make-Whole Redemption Price of the Bonds due on any date, together with such interest, then to the payment first of such interest, ratably, according to the amount of interest due on such date, and then to the payment of such principal or Make-Whole Redemption Price, ratably, according to the amounts of principal or Make-Whole Redemption Price due on such date to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds; and

Third: To the payment of the interest on and the principal or Make-Whole Redemption Price of the Bonds, the purchase and retirement of the Bonds and the redemption of the Bonds, all in accordance with the provisions of the Bond Indenture.

(ii) If the principal of all the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

Bond Trustee to Represent Holders. By the Bond Indenture, the Bond Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Bond Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Bond Indenture, the Bond Obligation and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Bond Trustee to represent the Holders, the Bond Trustee in its discretion may, and upon the written request of the Holders of more than 50% in aggregate principal amount of the Bonds then Outstanding under the Bond Indenture, and upon being indemnified to its reasonable satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Holders of the Bonds by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Bond Indenture, or in aid of the execution of any power granted in the Bond Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Bond Trustee or in the Holders of the Bonds under the Bond Indenture, the Bond Obligation, or any other law; and the Bond Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Bond Indenture or the Bonds. If more than one such request is received by the Bond Trustee from Holders, the Bond Trustee is required by the Bond Indenture to follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of 50%. All rights of action under the Bond Indenture or the Bonds or otherwise may be prosecuted and enforced by the Bond Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Bond Trustee shall be brought in the name of the Bond Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Bond Indenture.

Holders' Direction of Proceedings. The Holders of more than 50% in aggregate principal amount of the Bonds then Outstanding shall be entitled (provided that the Bond Trustee shall have the right to decline to follow any such direction which in the opinion of the Bond Trustee would be unjustly prejudicial to Holders not parties to such direction), by an instrument or concurrent instruments in writing executed and delivered to the Bond Trustee, to control and direct the enforcement of all rights and remedies granted to such Holders or the Bond Trustee for the benefit of the Holders under the Bond Indenture, including, without limitation, (i) the right to accelerate the principal of the Bonds as described in the Bond Indenture and (ii) the right to annul any declaration of acceleration.

Limitation on Holders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding, at law or in equity, for the protection or enforcement of any right or remedy under the Bond Indenture, the Bond Obligation or any other applicable law with respect to such Bond unless (1) such Holder previously shall have given to the Bond Trustee written notice of the occurrence of an Event of Default; (2) the Holders of more than 50% in aggregate principal amount of the Bonds then Outstanding shall have made a written request upon the Bond Trustee to exercise the powers granted in the Bond Indenture or to institute such suit, action or proceeding in its own name; (3) such Holders shall have tendered to the Bond Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Bond Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Bond Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared by the Bond Indenture, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Bond Indenture or under law, it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Bond Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Bond Indenture, the Bond Obligation, or other applicable law with respect to the Bonds, except in the manner provided in the Bond Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Bond Indenture and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Bond Indenture.

Absolute Obligation of the Corporation. Nothing in the Bond Indenture or in the Bonds shall affect or impair the obligation of the Corporation, which is absolute and unconditional, to pay the principal or Make-Whole Redemption Price of and interest on the Bonds to the respective Holders of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Bond Indenture, or, subject to the provisions of the Bond Indenture described above under the heading "Limitation on Holders' Right to Sue," affect or impair the right of such Holders to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Bond Trustee or any one or more Holders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Bond Trustee or the Holders, then in every such case the Corporation, the Bond Trustee and the Holders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Bond Indenture, severally and respectively, and all rights, remedies, powers and duties of the Corporation, the Bond Trustee and the Holders shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Bond Trustee or to the Holders of the Bonds is intended under the Bond Indenture to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Bond Indenture or existing at law or in equity or otherwise as of or after the date of the Bond Indenture.

No Waiver of Default. No delay or omission by the Bond Trustee or by any Holder of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy given by the Bond Indenture to the Bond Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Rights as a Secured Party. The Bond Trustee is permitted by the Bond Indenture to exercise all of the rights and remedies of a secured party under the Uniform Commercial Code with respect to the securities in the Bond Fund, including the right to sell or redeem such securities and the right to retain the securities in satisfaction of the obligation of the Corporation hereunder.

Waiver of Past Defaults. Pursuant to the Bond Indenture, the Bond Trustee may, and upon request of the Holders of not less than a majority in aggregate principal amount of the Outstanding Bonds shall, on behalf of the Holders of all the Bonds waive any past default under the Bond Indenture and its consequences, except a default: (a) in the payment of the principal or Make-Whole Redemption Price of or interest on any Bond; or (b) in respect of a covenant or other provision of the Bond Indenture which, pursuant to the Bond Indenture, cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of the Bond Indenture, but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Undertaking for Costs. Subject to the provisions of the Bond Indenture requiring compensation to, and indemnification of, the Bond Trustee, the parties to the Bond Indenture agree therein, and each Holder of any Bond by such Person's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under the Bond Indenture, or in any suit against the Bond Trustee for any action taken or omitted by it as Bond Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of the Bond Indenture summarized in this paragrpah shall not apply to any suit instituted by the Bond Trustee or to any suit instituted by any Bondholder or group of Bondholders holding in the aggregate more than a majority in aggregate principal amount of the Outstanding Bonds.

Bond Trustee May File Proofs of Claim.

(a) In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Corporation or any other obligor upon the Bonds or the property of the Corporation or of such other obligor or their creditors, the Bond Trustee (irrespective of whether the principal of the Bonds shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Bond Trustee shall have made any demand on the Corporation for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(1) To file and prove a claim for the whole amount of principal (or Make-Whole Redemption Price) and interest owing and unpaid in respect of the Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Bond Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Bond Trustee, its agents and counsel including expenses and fees of outside counsel and allocated costs of internal legal counsel) and of the Bondholders allowed in such judicial proceeding; and

(2) To collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any receiver, assignee, trustee, liquidator or sequestrator (or other similar official) in any such judicial proceeding is authorized by each Bondholder to make such payments to the Bond Trustee and, in the event that the Bond Trustee shall consent to the making of such payments directly to the Bondholders, to pay to the Bond Trustee any amount due to it for the reasonable

compensation, expenses, disbursements and advances of the Bond Trustee, its agents and counsel including expenses and fees of outside counsel and allocated costs of internal legal counsel, and any other amounts due the Bond Trustee under the Bond Indenture.

(b) Nothing contained in the Bond Indenture shall be deemed to authorize the Bond Trustee to authorize or consent to or accept or adopt on behalf of any Bondholder any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Bond Trustee to vote in respect of the claim of any Bondholder in any such proceeding.

Amendments Permitted.

(a) The Bond Indenture and the rights and obligations of the Corporation, the Holders of the Bonds and the Bond Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture which the Corporation and the Bond Trustee may enter into when there shall have been filed with the Bond Trustee the written consent of the Holders of more than 50% in aggregate principal amount of the Bonds then Outstanding; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of calculation of Bonds Outstanding for such purpose. No such modification or amendment shall (1) extend the maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment required by the Bond Indenture for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or change the transferability provisions with respect to the Bonds, without the consent of the Holder of each Bond so affected, or (2) reduce the percentage of Bonds the written consent of the Holders of which is required to effect any such modification or amendment, or (3) permit the creation of any lien on the assets pledged under the Bond Indenture prior to or on a parity with the lien created by the Bond Indenture, or deprive the Holders of the Bonds of the lien created by the Bond Indenture on such assets (except as expressly provided in the Bond Indenture), without the consent of the Holders of all of the Bonds then Outstanding under the Bond Indenture.

It shall not be necessary for the consent of the Holders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

If at any time the Corporation shall request the Bond Trustee to enter into any supplement or amendment to the Bond Indenture for any of the above purposes, the Bond Trustee is required by the Bond Indenture, at the expense of the Corporation, to cause notice of the proposed execution of such supplement or amendment to be mailed, by first class mail, postage prepaid, to all Holders of record whose consent is required pursuant to the Bond Indenture for the effectiveness of the proposed supplement or amendment at their addresses appearing on the registration books maintained by the Bond Trustee. Such notice shall briefly set forth the nature of the proposed supplement or amendment and shall state that copies thereof are on file at the Principal Corporate Trust Office of the Bond Trustee for inspection by all Holders.

Whenever, at any time within one year after the date of the mailing of such notice, the Corporation shall deliver to the Bond Trustee an instrument or instruments in writing purporting to be executed by the Holders whose consent is required pursuant to the provisions of the Bond Indenture described under this heading for the effectiveness of the proposed supplement or amendment, which instrument or instruments shall refer to the proposed supplement or amendment described in such notice and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the Bond Trustee may execute such supplement or amendment in substantially such form, without liability or responsibility to any Holder of any Bond, whether or not such Holder shall have consented thereto.

If the Holders whose consent is required pursuant to the provisions of the Bond Indenture described under this heading for the effectiveness of the proposed supplement or amendment, at the time of execution of such Supplemental Indenture shall have consented to and approved the execution thereof in accordance with the provisions above, no Holder of any Bond shall have any right to object to the execution of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Bond Trustee or the Corporation from executing the same or from taking any action pursuant to the provisions thereof.

Nothing contained in the provisions of the Bond Indenture summarized above shall, or shall be construed to, alter, limit or restrict in any manner or to any extent the rights of the Corporation and the Bond Trustee to enter into an indenture or indentures supplemental thereto pursuant to and in accordance with the provisions summarized in (b) below.

(b) Notwithstanding the provisions of the Bond Indenture summarized in (a) above, the Bond Indenture may be modified or amended from time to time and at any time by Supplemental Indenture which the Corporation and the Bond Trustee may enter into without the consent of any Holders, but only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Corporation in the Bond Indenture other covenants and agreements thereafter to be observed by the Corporation which are not contrary to or inconsistent with the Bond Indenture as then in effect, or to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Corporation if the surrender of such right or power is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Bond Indenture as then in effect, provided that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(ii) to make such provisions for purposes of curing any ambiguity, inconsistency or omission in or from the Bond Indenture, or to cure or correct any defective provision contained in the Bond Indenture, or to add or modify provisions of the Bond Indenture in regard to matters or questions arising under the Bond Indenture, as the Corporation may deem necessary or desirable and as are not contrary to or inconsistent with the Bond Indenture as then in effect, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(iii) to modify, amend or supplement the Bond Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect after the date of the Bond Indenture, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(iv) to authorize the issuance of Additional Bonds; or ;

(v) to make any other change which shall not materially adversely affect the rights or the interests of the Holders of the Bonds.

The Bond Trustee may consult with counsel, who may be counsel to Corporation, prior to entering into any Supplemental Indenture pursuant to the provisions of the Bond Indenture summarized in paragraph (b) above, and the opinion of such counsel shall be full and complete authorization and protection in respect of the execution and delivery by the Bond Trustee of any such Supplemental Indenture in good faith in accordance therewith.

The provisions of the Bond Indenture summarized under this heading shall not prevent any Holder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

Discharge of Bond Indenture. Bonds may be paid or caused to be paid by the Corporation in any of the following ways, provided that the Corporation also pays or causes to be paid any other sums payable under the Bond Indenture by the Corporation and related to the Bonds:

(a) by paying or causing to be paid the principal or Make-Whole Redemption Price of and interest on Outstanding Bonds, as and when the same become due and payable;

(b) by depositing with the Bond Trustee, in trust, at or before maturity, money or Defeasance Securities in the amount necessary (as provided in the Bond Indenture), in the opinion of an Accountant or other verification professional delivered to the Bond Trustee, to pay or redeem Outstanding Bonds (as more fully described in the Bond Indenture); or

(c) by delivering to the Bond Trustee, for cancellation by it, Outstanding Bonds.

If the Corporation shall pay or cause to be paid all Outstanding Bonds and shall also pay or cause to be paid all other sums payable by the Corporation under the Bond Indenture, and notwithstanding that any Bonds shall not have been surrendered for payment, the Bond Indenture and the pledge of assets made under the Bond Indenture, and all covenants, agreements and other obligations of the Corporation under the Bond Indenture, shall cease, terminate, become void and be completely discharged and satisfied, except with respect to the transfer or exchange of Bonds provided for therein, the payment of principal of and interest on the Bonds when due, the redemption of the Bonds provided for under the Bond Indenture and the obligations of the Corporation therein relating to the compensation and indemnification of the Bond Trustee.

Evidence of Rights of Holders. Any request, direction consent or other instrument in writing required or permitted by the Bond Indenture to be signed or executed by any Holders may be signed or executed in any number of concurrent instruments of similar tenor and be signed or executed by such Holders or their attorneys or legal representatives. Proof of the execution of any such instrument and of the ownership of Bonds shall be sufficient for any purpose of the Bond Indenture and shall be conclusive in favor of the Bond Trustee with regard to any action taken by either under such instrument if made in the manner provided in the Bond Indenture.

Any request, consent or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond, and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Bond Trustee or the Corporation in accordance therewith or reliance thereon.

Disqualified Bonds. In determining whether the Holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Bond Indenture, Bonds which are owned or held by or for the account of the Corporation, or by any other obligor on the Bonds or on the Bond Obligation, or by any other member of the CHI Credit Group, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Corporation, or any other obligor on the Bonds or on the Bond Obligation, or any other member of the CHI Credit Group, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the section of the Bond Indenture summarized in this paragraph if the pledgee shall establish to the satisfaction of the Bond Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Corporation, or any other obligor on the Bonds or on the Bond Obligation, or any other member of the CHI Credit Group. In case of a dispute as to such right, any decision by the Bond Trustee taken upon the advice of counsel shall be full protection to the Bond Trustee.

Summary of the Capital Obligation Document

Authorization and Issuance of Obligations. No Obligations may be issued under the provisions of the Capital Obligation Document except in accordance therewith. The total principal amount of Obligations, the number of Obligations and the series of Obligations that may be created under the Capital Obligation Document is not limited and shall be as set forth in the Supplemental Obligation Document providing for the issuance thereof. Each series of Obligations shall be issued pursuant to a Supplemental Obligation Document. Each series of Obligations shall be designated so as to differentiate the Obligations of such series from the Obligations of any other series. Unless provided to the contrary in a Supplemental Obligation Document, Obligations shall be issued in fully registered form and shall be issued by the Corporation.

Each Supplemental Obligation Document authorizing the issuance of an Obligation or Obligations shall specify and determine: the principal amount of such Obligation or Obligations (which, if such Obligation or Obligations do not represent or secure Indebtedness, shall be equal to the aggregate amount payable by the Corporation pursuant to such Obligation or Obligations or such other amount as is mutually agreed to by the

Corporation and the holder of such Obligation or Obligations); the purposes for which such Obligation or Obligations are being issued; the form, title, designation, manner of numbering or denominations, if applicable, of such Obligations; the date or dates of maturity or other final expiration of the term of such Obligations; the date of issuance of such Obligations; and any other provisions deemed advisable or necessary by the Corporation.

Any Supplemental Obligation Document providing for the issuance of Obligations shall set forth the date thereof, the date or dates upon which principal of, premium, if any, and interest on such Obligations shall be payable, the other terms and conditions of such Obligations, the form of such Obligations and the conditions precedent to the delivery of such Obligations, which shall include, among other things:

(a) delivery to the CHI Trustee of an opinion of Counsel acceptable to the CHI Trustee to the effect that (i) all requirements and conditions to the issuance of such Obligations, if any, set forth in the Capital Obligation Document and in the Supplemental Obligation Document have been complied with and satisfied and (ii) the Supplemental Obligation Document is a legal, valid and binding obligation of the Corporation enforceable in accordance with its terms, subject to and limited by the then customary exceptions for bankruptcy, insolvency, and other laws generally affecting enforcement of creditors' rights and application of general principles of equity and to certain other exceptions set forth in the Capital Obligation Document; and

(b) delivery to the CHI Trustee of an opinion of Counsel acceptable to the CHI Trustee to the effect that registration of such Obligations under the Securities Act of 1933, as amended, is not required, or, if such registration is required, that the Obligated Group has complied with all applicable provisions of said Act.

Payment of Required Payments. The Required Payments shall be payable in any currency of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts, and such Required Payments shall be payable at the principal corporate trust office of the CHI Trustee in Minneapolis, Minnesota or at the office of any alternate Paying Agent or Agents. Unless contrary provision is made in the Supplemental Obligation Document pursuant to which an Obligation is issued, payment of the amounts due on an Obligation shall be made, on or prior to the date on which such payment is due, to the Person appearing on the registration books maintained by the CHI Trustee at its principal corporate trust office as the registered owner thereof and shall be paid by check or draft mailed to the registered owner at its address as it appears on such registration books or at such other address as is furnished to the CHI Trustee in writing by such owner; provided, however, that any Supplemental Obligation Document creating any Obligation may provide that amounts due on such Obligation may be paid, upon the request of the owner of such Obligation, by wire transfer or by such other means as are then commercially reasonable and acceptable to the holder thereof. Upon the reasonable written request of the CHI Trustee, the Corporation shall provide information identifying the Obligation or Obligations with respect to which such payment, specifying the amount, was made, by series, designation, number and registered owner. Except with respect to Obligations directly paid to the owner thereof or its designee, the Corporation agrees in the Capital Obligation Document to deposit with the CHI Trustee on or prior to each due date of the Required Payments payable on any of the Obligations a sum sufficient to pay such amounts so becoming due. Any such moneys shall upon Written Request and direction of the Corporation be invested in Permitted Investments. The CHI Trustee shall not be liable or responsible for any loss resulting from any such investments made in accordance with the terms of the Capital Obligation Document.

Mutilated, Lost, Stolen or Destroyed Obligations. In the event any Obligation is mutilated, lost, stolen or destroyed, a new Obligation of like form, date, series, designation, maturity and denomination as that so mutilated, lost, stolen or destroyed may be executed and authenticated in accordance with the provisions in the Capital Obligation Document; provided that, in the case of any mutilated Obligation, such mutilated Obligation shall first be surrendered to the CHI Trustee, and in the case of any lost, stolen or destroyed Obligation, there shall be first furnished to the Corporation and the CHI Trustee evidence of such loss, theft or destruction satisfactory to the Corporation and the CHI Trustee, together with indemnity satisfactory to them. In the event any such Obligation shall have matured, instead of issuing a duplicate Obligation, the Corporation may pay the same without surrender thereof. The Corporation and the CHI Trustee may charge the holder or owner of such Obligation with their reasonable fees and expenses in this connection.

Registration; Negotiability; Cancellation Upon Surrender; Exchange of Obligations. Upon surrender for transfer of any Obligation at the principal corporate trust office of the CHI Trustee, a new Obligation of the same form, date, series, designation and maturity without coupons for a like aggregate principal amount may be executed and authenticated in accordance with the provisions in the Capital Obligation Document and delivered in the name of the transferee or transferees.

The execution of any Obligation of any denomination shall constitute full and due authorization of such denomination and the CHI Trustee shall thereby be authorized to authenticate and deliver such Obligation.

As to any Obligation, the Person in whose name the same shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Obligation shall be made only to or upon the order of the registered owner thereof or his legal representative, but such registration may be changed as provided in the Capital Obligation Document. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Obligation to the extent of the sum or sums so paid.

The Corporation and the CHI Trustee may charge each Obligation holder requesting an exchange, registration, change in registration or transfer of an Obligation any tax, fee or other governmental charge required to be paid with respect to such exchange, registration or transfer.

Security for Obligations. All Obligations issued and outstanding under the Capital Obligation Document are equally and ratably secured by the Capital Obligation Document except to the extent specifically permitted therein. Any one or more series of Obligations issued under the Capital Obligation Document may be secured by Liens that constitute Permitted Encumbrances. Such security need not extend to any other Indebtedness (including any other Obligations or series of Obligations). Consequently, the Supplemental Obligation Document pursuant to which any one or more series of Obligations is issued may provide for such supplements or amendments to the provisions of the Capital Obligation Document, as are necessary to provide for such security and to permit realization upon such security solely for the benefit of the Obligations entitled thereto.

Necessary Amendments in Connection with the Issuance of Obligations in Forms Other than Promissory Notes. The Supplemental Obligation Document pursuant to which any Obligation is issued may provide for any supplements or amendments to the provisions of the Capital Obligation Document, as are necessary to permit the issuance of an Obligation thereunder in a form other than a promissory note. Such supplements and amendments shall, except as otherwise expressly provided in the Capital Obligation Document, be equally and ratably secured by any Lien created thereunder.

Prepayment or Redemption Dates. Obligations shall be subject to optional and mandatory prepayment or redemption in whole or in part and may be prepaid or redeemed prior to maturity as provided in the Supplemental Obligation Document pertaining to such Obligations or the series of such Obligations, but not otherwise.

The Obligated Group.

(a) The Obligated Group is established by the Capital Obligation Document, the only Member of which on the Effective Date is the Corporation. Each Member unconditionally and jointly and severally covenants in the Capital Obligation Document that it will make all Required Payments as described therein.

(b) The provisions of the Capital Obligation Document summarized under the headings "General Covenants; Right of Contest," "Insurance," "Historical Debt Service Coverage Ratio," "Merger, Consolidation, Sale or Conveyance," "Liens on Property," and "Indemnity" shall apply to and constitute covenants of each Member to the same extent such provisions apply to the Corporation.

(c) In the event a Person becomes a Member of the Obligated Group subsequent to the Effective Date, all references in the Capital Obligation Document to the Corporation shall be deemed to refer to and include such new Member, and references to Participants and Designated Affiliates shall be deemed to refer to and include Participants and Designated Affiliates of such Member, if and to the extent applicable.

(d) Any action required to be taken by the Corporation under the terms of the Capital Obligation Document may be undertaken by any other Member that has been designated as the Obligated Group Agent under the terms of the Capital Obligation Document.

Entrance Into the Obligated Group. Any Person may become a Member of the Obligated Group if:

(a) Such Person is a corporation;

(b) Such Person shall execute and deliver to the CHI Trustee a Supplemental Obligation Document not unacceptable to the CHI Trustee which shall also be executed by the CHI Trustee and the Corporation, containing the agreement of such Person (i) to become a Member of the Obligated Group and thereby to become subject to compliance with all provisions of the Capital Obligation Document, (ii) unconditionally and irrevocably (subject to the right of such Person to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of the Capital Obligation Document summarized below under the heading "Cessation of Status as a Member of the Obligated Group") to jointly and severally pay the Required Payments at the times and in the amounts provided in the Capital Obligation Document and in each such Obligation and (iii) to appoint the Obligated Group Agent to act as its agent and true and lawful attorney in fact and grant to the Obligated Group Agent full and exclusive power to execute Supplemental Obligation Documents and authorize the issuance of Obligations;

(c) The Corporation shall, by appropriate action of its Governing Body, have approved the admission of such Person to the Obligated Group;

(d) The CHI Trustee shall have received (i) an Officer's Certificate of the Corporation which demonstrates that, immediately upon such Person becoming a Member of the Obligated Group, the Members would not, as a result of such transaction, be in default in the performance or observance of any covenant or condition to be performed or observed by them under the Capital Obligation Document, (ii) an opinion of Counsel to the effect that (x) the Supplemental Obligation Document described in subsection (b) above has been duly authorized, executed and delivered and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject to the then customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity and to the certain other exceptions set forth in the Capital Obligation Document and (y) the addition of such Person to the Obligated Group will not adversely affect the status as a Tax-Exempt Organization of any Member which otherwise has such status, and (iii) if all amounts due or to become due on all Related Bonds have not been paid to the holders thereof and provision for such payment has not been made in such manner as to have resulted in the defeasance of all Related Bond Indentures, an opinion of nationally recognized municipal bond counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the CHI Trustee), to the effect that, under then existing law, the consummation of such transaction would not adversely affect the validity of any Related Bond or result in the loss of any exemption from federal or state income taxation of interest payable thereon to which such Related Bond otherwise is entitled; and

(e) The exhibit attached to the Capital Obligation Document listing Members of the Obligated Group is amended to add such Person as a Member.

Each successor, assignee, surviving, resulting or transferee corporation of a Member must agree to become, and satisfy the above-described conditions to becoming, a Member of the Obligated Group prior to any such succession, assignment or other change in such Member's corporate status.

Cessation of Status as a Member of the Obligated Group. Each Member covenants in the Capital Obligation Document that it will not take any action, corporate or otherwise, which would cause it or any successor thereto into which it is merged or consolidated under the terms of the Capital Obligation Document to cease to be a Member of the Obligated Group unless:

(a) if the Member proposing to withdraw from the Obligated Group is a party to any Related Loan Documents with respect to Related Bonds which remain outstanding, another Member of the Obligated Group has issued an Obligation under the Capital Obligation Document evidencing or assuming the obligation of the Obligated Group in respect of such Related Bonds;

(b) prior to cessation of such status, there is delivered to the CHI Trustee an opinion of nationally recognized municipal bond counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the CHI Trustee) to the effect that, under then existing law, the cessation by the Member of its status as a Member will not adversely affect the validity of any Related Bond or result in the loss of any exemption from federal or state income taxation of interest payable thereon to which such Related Bond would otherwise be entitled;

(c) prior to and immediately after such cessation, no event of default exists under the Capital Obligation Document and no event shall have occurred which with the passage of time or the giving of notice, or both, would become such an event of default; and

(d) prior to such cessation there is delivered to the CHI Trustee an opinion of Counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the CHI Trustee) to the effect that the cessation by such Member of its status as a Member will not adversely affect the status as a Tax-Exempt Organization of any Member which otherwise has such status.

Upon such cessation in accordance with the provisions of the Capital Obligation Document described under this heading, the exhibit attached to the Capital Obligation Document listing Members of the Obligated Group shall be amended to delete therefrom the name of such Person and such withdrawing Member shall no longer have any obligation with respect to the payment of Required Payments with respect to any Obligations issued or to be issued under the Capital Obligation Document, or with respect to the observance of the covenants contained therein. The CHI Trustee shall, at the request of the Corporation, execute and deliver all instruments necessary to reflect the withdrawal of such Member from the Obligated Group.

Substitute Obligations Upon Withdrawal of a Member. In the event any Member ceases to be a Member of the Obligated Group and, as a consequence, another Member issues a replacement Obligation, the original Obligation shall be surrendered to the CHI Trustee in exchange for the replacement Obligation without notice to or consent of any holder of Related Bonds. The replacement Obligation shall provide for payments of the Required Payments identical to the original Obligation and sufficient to provide all payments on any Related Bonds secured by such Obligation.

Required Payments.

(a) The Corporation unconditionally and irrevocably covenants in the Capital Obligation Document that it will promptly pay the Required Payments with respect to every Obligation issued thereunder and any other payments, at the place, on the dates, at the times and in the manner provided therein, in the applicable Supplemental Obligation Document and in said Obligations according to the true intent and meaning thereof. Notwithstanding any schedule of payments upon the Obligations set forth in the Capital Obligation Document or in the Obligations, the Corporation unconditionally and irrevocably agrees in the Capital Obligation Document to make payments upon each Obligation and be liable therefor at the times and in the amounts equal to the Required Payments (including, without limitation, interest, principal at maturity or by mandatory sinking fund redemption, or premium, if any, upon any Related Bonds from time to time outstanding) on the Obligations.

(b) The Corporation is required under the Capital Obligation Document to cause each Participant and each Designated Affiliate (subject to contractual and organizational limitations) to pay or otherwise transfer to the Corporation such amounts as are necessary to duly and punctually pay the Required Payments on all Outstanding Obligations and any other payments at the place, on the dates, at the times and in the manner provided in the Capital Obligation Document, in the applicable Supplemental Obligation Document and in said Obligations, when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise, all in accordance with the true intent and meaning thereof.

(c) The Corporation is required under the Capital Obligation Document to at all times maintain an accurate and complete list of all Participants and Designated Affiliates and provide such list to the CHI Trustee concurrent with the delivery of the financial information required to be delivered pursuant to the provisions of the Capital Obligation Document summarized in subparagraph (a) under the heading "Financial Statements" below.

(d) The Corporation may designate any Person as a Designated Affiliate under the Capital Obligation Document, and such Person shall thereafter be deemed a Designated Affiliate until such time as the Corporation shall declare that such Person will no longer be a Designated Affiliate. The Corporation may, in its sole discretion, elect to include any Designated Affiliate within the CHI Reporting Group, but shall be under no obligation to so include a Designated Affiliate which is not a Material Designated Affiliate. So long as a Person is designated as a Designated Affiliate, the Corporation is required under the Capital Obligation Document to execute and have in effect such contracts or other agreements that the Corporation deems sufficient for it to cause such Designated Affiliate to comply with the terms and conditions of the Capital Obligation Document.

(e) Notwithstanding anything to the contrary in the Capital Obligation Document, no Person shall cease to be a Participant or a Designated Affiliate if any Outstanding Related Bonds have been issued for the benefit of such Person until there is delivered to the CHI Trustee an opinion of nationally recognized municipal bond counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the CHI Trustee) to the effect that, under then existing law, the cessation by such Person of its status as a Participant or a Designated Affiliate will not adversely affect the validity of any Related Bond or result in the loss of any exemption from federal or state income taxation of interest payable thereon to which such Related Bond would otherwise be entitled.

(f) The Corporation covenants in the Capital Obligation Document that it will cause each Participant and each Designated Affiliate to comply with the terms and conditions thereof which are applicable to such Participant or Designated Affiliate and of the Related Loan Document, if any, to which such Participant or Designated Affiliate is a party.

General Covenants; Right of Contest. The Corporation covenants in the Capital Obligation Document to the following:

(a) Except as otherwise expressly provided in the Capital Obligation Document (i) to preserve its corporate or other separate legal existence, (ii) to preserve all its rights and licenses to the extent necessary in the operation of its business and affairs as then conducted and to cause each Participant and Designated Affiliate to preserve the same and (iii) to be qualified to do business and conduct its affairs in each jurisdiction where its ownership of Property or the conduct of its business or affairs requires such qualification and to cause each Participant and Designated Affiliate to do the same; provided, however, that nothing contained in the Capital Obligation Document shall be construed to obligate the Corporation or to obligate the Corporation to cause each Participant and Designated Affiliate to retain, preserve or keep in effect the rights, licenses or qualifications which in the opinion of the Corporation are no longer used or useful in the conduct of its business.

(b) In the case of the Corporation and any Person which is a Tax-Exempt Organization at the time it becomes a Participant or Designated Affiliate, so long as the Capital Obligation Document shall remain in full force and effect and so long as all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or provision for such payment has not been made, to take no action or suffer any action to be taken by others, including any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, which could result in any such Related Bond being declared invalid or result in the interest on any Related Bond, which is otherwise exempt from federal or state income taxation, becoming subject to such taxation.

(c) At its sole cost and expense, promptly comply with all present and future laws, ordinances, orders, decrees, decisions, rules, regulations and requirements of every duly constituted governmental authority, commission and court and the officers thereof which may be applicable to it or any of its affairs, business, operations and Property or any part thereof or to the use or manner of use, occupancy or condition of any of its Property or any part thereof, if the failure to so comply would have a materially adverse affect on the operations or financial affairs of the CHI Credit Group, taken as a whole.

The foregoing notwithstanding, the Corporation or any member of the CHI Credit Group may take actions which could result in the alteration or loss of its status as a Tax-Exempt Organization if it otherwise has such status if prior thereto there is delivered to the CHI Trustee (a) the written consent of the Corporation to such action and (b) an opinion of nationally recognized municipal bond counsel (which Counsel and opinion, including without limitation the scope, forms and other aspects thereof, are not unacceptable to the CHI Trustee) to the effect that, under then existing law, such actions would not adversely affect the validity of any Related Bond or result in the loss of any exemption from federal or state income taxation of interest payable thereon to which such Related Bond would otherwise be entitled or adversely affect the enforceability in accordance with its terms of the Capital Obligation Document against any Person.

Neither the Corporation nor any member of the CHI Credit Group is required under the Capital Obligation Document to observe and perform the covenant contained therein and summarized in subsection (c) above so long as the Corporation or such member of the CHI Credit Group shall contest, in good faith and at its cost and expense, in its own name and behalf, the amount or validity thereof, in an appropriate manner or by appropriate proceedings which shall operate during the pendency thereof to prevent the collection of or other realization upon the obligation, Indebtedness, demand, claim or Lien so contested, and the sale, forfeiture, or loss of its Property or any part thereof, provided, that no such contest shall subject any Related Issuer, any Obligation holder or the CHI Trustee to the risk of any liability. While any such matters are pending, neither the Corporation nor any member of the CHI Credit Group is required under the Capital Obligation Document to pay, remove or cause to be discharged the obligation, Indebtedness, demand, claim or Lien being contested unless the Corporation or such member of the CHI Credit Group agrees to settle such contest. The Capital Obligation Document requires that each such contest shall be promptly prosecuted to final conclusion (subject to the right of the Corporation or such member of the CHI Credit Group engaging in such a contest to settle such contest), and in any event the Corporation will hold all Related Issuers, all Related Bond Trustees, all Obligation holders and the CHI Trustee harmless from and against all losses, judgments, decrees and costs (including attorneys' fees and expenses in connection therewith) as a result of such contest and will, promptly after the final determination of such contest or settlement thereof, pay and discharge the amounts which shall be determined to be payable therein, together with all penalties, fines, interests, costs and expenses thereon or incurred in connection therewith.

Insurance. The Corporation covenants in the Capital Obligation Document to cause each Participant and each Designated Affiliate to maintain or cause to be maintained, at its sole cost and expense, insurance (which may include any program of self-insurance) with respect to its Property, the operation thereof and its business against such casualties, contingencies and risks (including but not limited to public liability and employee dishonesty) and in amounts not less than is customary in the case of organizations engaged in the same or similar activities and similarly situated and as is adequate, in the opinion of the Corporation, to protect its Property and operations.

Historical Debt Service Coverage Ratio. The Corporation covenants and agrees in the Capital Obligation Document to cause each Participant and each Designated Affiliate to conduct its business on a revenue producing basis and to exercise such skill and diligence as to provide income from its Property, together with other available funds sufficient to pay promptly all payments of principal and interest on its Indebtedness, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Capital Obligation Document, to the extent permitted by law.

The Capital Obligation Documents requires that the Corporation calculate the Income Available for Debt Service of the CHI Reporting Group for each Fiscal Year and the Historical Debt Service Coverage Ratio of the CHI

Reporting Group for the Fiscal Year and deliver a copy of such calculations to the Persons to whom financial statements are required to be delivered under the Capital Obligation Document.

If in any Fiscal Year the Historical Debt Service Coverage Ratio of the CHI Reporting Group is less than 1.10 to 1.00, the Capital Obligation Document provides that the CHI Trustee shall require the Corporation at its expense to retain a Consultant to make recommendations with respect to the rates, fees and charges of the Participants and Designated Affiliates and their methods of operation and other factors affecting their financial condition in order to increase such Historical Debt Service Coverage Ratio to at least 1.10 to 1.00.

A copy of the Consultant's report and recommendations, if any, shall be filed with the Corporation and the CHI Trustee. The Capital Obligation Document provides that the Corporation shall follow and shall cause each Participant and each Designated Affiliate to follow each recommendation of the Consultant applicable to it to the extent feasible and permitted by law. The provision of the Capital Obligation Document summarized in this paragraph is not to be construed to prohibit any Person from serving indigent patients to the extent required for such Person to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients without charge or at reduced rates.

The foregoing provisions notwithstanding, if in any Fiscal Year the Historical Debt Service Coverage Ratio of the CHI Reporting Group is less than 1.10 to 1.00, the CHI Trustee shall not be obligated to require the Corporation to retain a Consultant to make such recommendations if: (a) there is filed with the CHI Trustee a written report addressed to them of a Consultant (which Consultant and report, including without limitation the scope, form, substance and other aspects of such report, are not unacceptable to the CHI Trustee) which contains an opinion of such Consultant that applicable laws or regulations have prevented the CHI Reporting Group from generating Income Available for Debt Service during such Fiscal Year in an amount sufficient to produce a Historical Debt Service Coverage Ratio of the CHI Reporting Group of 1.10 to 1.00 or higher, and, if requested by the CHI Trustee, such report is accompanied by a concurring opinion of Counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the CHI Trustee) as to any conclusions of law supporting the opinion of such Consultant; (b) the report of such Consultant indicates that, in the opinion of the Consultant, the CHI Reporting Group has generated the maximum amount of revenues reasonably practicable given such laws or regulations; and (c) the Historical Debt Service Coverage Ratio of the CHI Reporting Group was at least 1.00 to 1.00 for such Fiscal Year. The Corporation shall not be required to cause the Consultant's report referred to in the preceding sentence to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Corporation provides to the CHI Trustee an opinion of Counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the CHI Trustee) to the effect that the applicable laws and regulations underlying the Consultant's report delivered in respect of the previous Fiscal Year have not changed in any material way.

Merger, Consolidation, Sale or Conveyance.

(a) The Corporation agrees in the Capital Obligation Document that it will not merge into one or more corporations, or sell or convey all or substantially all of its Property to any Person, unless:

(i) Any successor corporation to the Corporation (including without limitation any purchaser of all or substantially all the Property of the Corporation) is a corporation organized and existing under the laws of the United States of America or a state thereof and shall execute and deliver to the CHI Trustee an appropriate instrument, satisfactory to the CHI Trustee, containing the agreement of such successor corporation to assume, jointly and severally, the due and punctual payment of the Required Payments on all Obligations according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Capital Obligation Document to be kept and performed by the Corporation;

(ii) Immediately after such merger or consolidation, or such sale or conveyance, the Corporation would not be in default in the performance or observance of any covenant or condition of any Related Loan Document or the Capital Obligation Document; and

(iii) If all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or fully provided for, there shall be delivered to the CHI Trustee an opinion of nationally recognized municipal bond counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the CHI Trustee) to the effect that, under then existing law, the consummation of such merger, consolidation, sale or conveyance, would not adversely affect the validity of such Related Bonds or result in the loss of any exemption from federal or state income taxation of interest payable thereon to which such Related Bonds would otherwise be entitled.

(b) The Corporation agrees in the Capital Obligation Document that it will not consolidate with one or more corporations or allow one or more corporations to merge into it or transfer all or substantially all of its property into the Corporation without meeting the conditions set forth in subsection (a) above.

(c) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Capital Obligation Document, and the party to such transaction, if it is not the survivor, shall thereupon be relieved of any further obligation or liabilities under the Capital Obligation Document or upon the Obligations and the predecessor or non-surviving corporation may thereupon or at any time thereafter be dissolved, wound up or liquidated. Any successor corporation thereupon may cause to be executed and may issue in its own name Obligations under the Capital Obligation Document and the predecessor corporation shall be released from its obligations under the Capital Obligation Document and under any Obligations, if such predecessor corporation shall have conveyed all Property owned by it (or all such Property shall be deemed conveyed by operation of law) to such successor corporation. All Obligations so issued by such successor corporation under the Capital Obligation Document shall in all respects have the same legal rank and benefit under the Capital Obligation Document as Obligations theretofore or thereafter issued in accordance with the terms of the Capital Obligation Document as though all of such Obligations had been issued under the Capital Obligation Document by the Corporation without any such consolidation, merger, sale or conveyance having occurred.

(d) In case of any such consolidation, merger, sale or conveyance, such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued as may be appropriate.

(e) The CHI Trustee may rely upon an opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of the Capital Obligation Document summarized under this heading and that it is proper for the CHI Trustee to join in the execution of any instrument required to be executed and delivered thereby.

(f) Except as may be expressly provided in any Supplemental Obligation Document, the ability of any Participant or any Designated Affiliate to merge into, or consolidate with, one or more corporations, or allow one or more corporations to merge into it, or sell or convey all or substantively all of its Property to any Person is not limited by the provisions of the Capital Obligation Document. Notwithstanding anything to the contrary in the Capital Obligation Document, no Participant or Designated Affiliate shall engage in any merger or consolidation or any sale or conveyance of substantially all of its assets if any Outstanding Related Bonds have been issued for the benefit of such Participant or Designated Affiliate until there is delivered to the CHI Trustee an opinion of nationally recognized municipal bond counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the CHI Trustee) to the effect that, under then existing law, such action will not adversely affect the validity of any Related Bond or result in the loss of any exemption from federal or state income taxation of interest payable thereon to which such Related Bond otherwise is entitled.

Financial Statements. The Corporation covenants in the Capital Obligation Document that it will, and will cause each Participant and each Designated Affiliate to keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of or in relation to the business and affairs of the Corporation, the Participants and the Designated Affiliates in accordance with generally accepted accounting principles consistently applied except as may be disclosed in the notes to the audited financial statements referred to in subsections (a) and (b) below, and will furnish to the CHI Trustee:

(a) As soon as practicable after they are available, but in no event more than 150 days after the last day of each Fiscal Year, a financial report of the Corporation and the Participants for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants selected by the Corporation, prepared on a combined or consolidated basis to include at least the results of operations of the Corporation and the Participants and a statement of financial position as of the end of such Fiscal Year for the Corporation and the Participants, showing in each case in comparative form the financial figures for the preceding Fiscal Year. There shall also be delivered any information disseminated pursuant to any Continuing Disclosure Agreement at the time delivered to the "dissemination agent" thereunder. Nothing in the Capital Obligation Document shall be deemed to prevent the Corporation, in its sole discretion, from including a Designated Affiliate within the financial reports delivered pursuant hereto.

(b) If the statements referred to in subsection (a) above do not include the results of operations of any Material Designated Affiliate, as soon as practicable, but in no event more than 150 days after the last day of each Fiscal Year for such Material Designated Affiliate, a financial statement for such Material Designated Affiliate for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants selected by such Material Designated Affiliate prepared on a combined or consolidated basis (if applicable) to include the results of operations of all Persons required to be consolidated or combined with such Material Designated Affiliate in accordance with generally accepted accounting principles and containing at least the results of operations of such Material Designated Affiliate and a statement of financial position as of the end of such Fiscal Year, showing in each case, in comparative form, the financial figures for the preceding Fiscal Year for such Material Designated Affiliate, and a certificate of the chief financial officer of such Material Designated Affiliate stating that such officer has obtained no knowledge of any default by such Material Designated Affiliate in the fulfillment of any of the terms, covenants, provisions or conditions of the Capital Obligation Document, or if such chief financial officer shall have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof. There shall also be delivered any information disseminated pursuant to any Continuing Disclosure Agreement at the time delivered to the "dissemination agent" thereunder.

(c) If financial statements have been delivered to the CHI Trustee pursuant to the provisions of the Capital Obligation Document summarized in subsection (b) above, as soon as practicable, but in no event more than 180 days after the last day of each Fiscal Year of the Corporation, the result of operations and statement of financial position of the CHI Reporting Group prepared by or at the direction of the chief financial officer of the Corporation based upon the audited financial statements described in subsections (a) and (b) above (such result of operations and statement of financial position being referred to herein as the "CHI Reporting Group Financial Statements"), together with a certificate of the chief financial officer of the Corporation stating that the CHI Reporting Group Financial Statements were prepared in accordance with generally accepted accounting principles (except for required consolidations) and that the CHI Reporting Group Financial Statements reflect the results of the operations of only the members of the CHI Reporting Group and that all members of the CHI Reporting Group are included.

(d) At the time of delivery of the financial report referred to in subsection (a) above, an Officer's Certificate of the Corporation stating that the Corporation has made a review of the activities of the Corporation during the preceding Fiscal Year for the purpose of determining whether or not the Corporation has complied with all of the terms, provisions and conditions of the Capital Obligation Document and that the Corporation has kept, observed, performed and fulfilled each and every covenant, provision and condition of the Capital Obligation Document on its part to be performed and is not in default in the performance or observance of any of the terms, covenants, provisions or conditions thereof, or if any such Person shall be in default such certificate shall specify all such defaults and the nature thereof.

(e) In the event a Person becomes a Member of the Obligated Group, the Capital Obligation Document provides that such Obligated Group Member shall comply with the covenants contained in the provisions of the Capital Obligation Document summarized in subsections (a) and (b) above by delivering financial information relating to such Member and its Material Designated Affiliates in the same manner as the Corporation and its Material Designated Affiliates, and the financial information provided pursuant to the provisions of the Capital Obligation Document summarized in subsection (c) above shall include the results of operations of such Member of the Obligated Group and such Member's Material Designated Affiliates.

Liens on Property. The Capital Obligation Document provides that the Corporation shall not create or incur or permit to be created or incurred or to exist any Lien on its Property, and that the Corporation shall not permit to be created or incurred or to exist any Lien on any Property of any Participant or any Designated Affiliate except, in each instance, Permitted Encumbrances.

Indemnity. The Corporation is required under the Capital Obligation Document to pay, and protect, indemnify and hold the CHI Trustee harmless from and against any and all liabilities, losses, damages, costs and expenses (including reasonable attorneys' fees and expenses of the CHI Trustee), causes of action, suits, claims, demands and judgments of whatsoever kind and nature (including those arising or resulting from any injury to or death of any Person or damage to Property) arising from or in any manner directly or indirectly growing out of or connected with certain events specified in the Capital Obligation Document.

Extension of Payment; Penalty. In case the time for the payment of Required Payments on any Obligation shall be extended, whether or not such extension be by or with the consent of the CHI Trustee, such Required Payments so extended shall not be entitled in case of default under the Capital Obligation Document to the benefit or security of the Capital Obligation Document except subject to the prior payment in full of the Required Payments on all Obligations then outstanding, the time for the payment of which shall not have been extended.

Events of Default. Each of the following events is declared an "event of default" under the Capital Obligation Document:

(a) failure of the Obligated Group to pay any installment of any Required Payment on any Obligation when the same shall become due and payable, whether at maturity, upon any date fixed for prepayment or by acceleration or otherwise and the continuance of such failure for five days;

(b) failure of the Corporation or any other Member of the Obligated Group to comply with, observe or perform any of the covenants, conditions, agreements or provisions of the Capital Obligation Document and to remedy such default within 30 days after written notice thereof to the Corporation from the CHI Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Obligations; provided, that if such default cannot with due diligence and dispatch be wholly cured within 30 days but can be wholly cured within some period greater than 30 days, the failure of the Corporation or any other Member of the Obligated Group to remedy such default within such 30-day period shall not constitute a default under the Capital Obligation Document if the Corporation or any other Member of the Obligated Group shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch;

(c) any representation or warranty made by the Corporation or any other Member of the Obligated Group in the Capital Obligation Document or in any Supplemental Obligation Document or in any statement or certificate furnished to the CHI Trustee or the purchaser of any Obligation or Related Bond in connection with the delivery of any Obligation or sale of any Related Bond or furnished by the Corporation or any other Member of the Obligated Group pursuant to the Capital Obligation Document or any Supplemental Obligation Document proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 30 days after written notice thereof to the Corporation by the CHI Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Obligations;

(d) default by the Corporation or any other Member of the Obligated Group in the payment of the principal of, premium, if any, or interest on any Indebtedness (other than Non-Recourse Indebtedness) of the Corporation or any other Member of the Obligated Group, including without limitation any Indebtedness created by any Related Loan Document, as and when the same shall become due, or an event of default as defined in any mortgage, indenture, loan agreement or other instrument under or pursuant to which there was issued or incurred, or by which there is secured, any such Indebtedness (including any Obligation) of the Corporation or any other Member of the Obligated Group, and which default in payment or event of default entitles the holder thereof to declare or, in the case of any Obligation, to request that the CHI Trustee declare, such Indebtedness due and payable prior to the date on which it would otherwise become due and payable; provided, however, that if such Indebtedness is not evidenced by an Obligation or issued, incurred or secured by or under a Related Loan Document, a default in payment thereunder shall not constitute an "event of default" under the Capital Obligation Document unless the unpaid principal amount of such Indebtedness, together with the unpaid principal amount of all other Indebtedness so in default, exceeds 10% of Unrestricted Cash of the CHI Reporting Group as shown on or derived from the then latest available CHI Reporting Group Financial Statements;

(e) any judgment, writ or warrant of attachment or of any similar process shall be entered or filed against the Corporation or any other Member of the Obligated Group or against any Property of the Corporation or any other Member of the Obligated Group and remains unvacated, unpaid, unbonded, unstayed or uncontested in good faith for a period of 30 days; provided, however, that none of the foregoing shall constitute an event of default unless the amount of such judgment, writ, warrant of attachment or similar process, together with the amount of all other such judgments, writs, warrants or similar processes so unvacated, unpaid, unbonded, unstayed or uncontested, exceeds 10% of Unrestricted Cash of the CHI Reporting Group as shown on or derived from the then latest available CHI Reporting Group Financial Statements;

(f) the Corporation or any other Member of the Obligated Group admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for the Corporation or such Member, or for the major part of its Property;

(g) a trustee, custodian or receiver is appointed for the Corporation or any other Member of the Obligated Group or for the major part of its Property and is not discharged within 30 days after such appointment; or

(h) bankruptcy, dissolution, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against the Corporation or any other Member of the Obligated Group (other than bankruptcy proceedings instituted by the Corporation or any other Member of the Obligated Group against third parties), and if instituted against the Corporation or any other Member of the Obligated Group are allowed against the Corporation or such Member or are consented to or are not dismissed, stayed or otherwise nullified within 60 days after such institution.

Acceleration. The Capital Obligation Document provides that if an event of default has occurred and is continuing, the CHI Trustee may, and if requested by either the holders of not less than 25% in aggregate principal amount of Outstanding Obligations or the holder of any Accelerable Instrument under which Accelerable Instrument an event of default exists (which event of default permits the holder thereof to request that the CHI Trustee declare such Indebtedness evidenced by an Obligation due and payable prior to the date on which it would otherwise become due and payable), shall, by notice in writing delivered to the Corporation, declare the entire principal amount of all Obligations then Outstanding under the Capital Obligation Document and the interest accrued thereon, if any, immediately due and payable, and the entire principal and such interest, if any, shall thereupon become immediately due and payable, subject, however, to the provisions of the Capital Obligation Document with respect to waivers of events of default. The foregoing notwithstanding, if the Supplemental Obligation Document creating an Obligation or Obligations includes a requirement that the consent of any credit enhancer, liquidity provider or any other Person be obtained prior to the acceleration of such Obligation or Obligations, the CHI Trustee may not accelerate such Obligation or Obligations without the consent of such Person.

Remedies; Rights of Obligation Holders. Upon the occurrence of any event of default under the Capital Obligation Document, the CHI Trustee may pursue any available remedy including a suit, action or proceeding at law or in equity to enforce the payment of the Required Payments payable on the Obligations Outstanding under the Capital Obligation Document and any other sums due under the Capital Obligation Document and may collect such sums in the manner provided by law out of the Property of the Corporation or any other Member of the Obligated Group wherever situated.

If an event of default shall have occurred, and if it shall have been requested to do so by either the holders of 25% or more in aggregate principal amount of Obligations Outstanding or the holder of an Accelerable Instrument upon whose request the CHI Trustee has accelerated the Obligations pursuant to the acceleration provisions of the Capital Obligation Document, the CHI Trustee is obligated under the Capital Obligation Document to exercise such one or more of the rights and powers conferred by the section of the Capital Obligation Document described under this heading as the CHI Trustee shall deem most expedient in the interests of the holders of Obligations; provided, however, that the CHI Trustee shall have the right to decline to comply with any such request if the CHI Trustee shall be advised by Counsel (who may be its own Counsel) that the action so requested may not lawfully be taken or the CHI Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of Obligations not parties to such request.

No remedy by the terms of the Capital Obligation Document conferred upon or reserved to the CHI Trustee (or to the holders of Obligations) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the CHI Trustee or to the holders of Obligations under the Capital Obligation Document existing at law or in equity or by statute as of or after the date of the Capital Obligation Document.

No delay or omission to exercise any right or power accruing upon any default or event of default shall impair any such right or power or shall be construed to be a waiver of any such default or event of default, or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or event of default under the Capital Obligation Document, whether by the CHI Trustee or by the holders of Obligations, shall extend to or shall affect any subsequent default or event of default or shall impair any rights or remedies consequent thereon.

Direction of Proceedings by Holders. The Holders of a majority (greater than 50%) in aggregate principal amount of the Obligations then Outstanding which have become due and payable in accordance with their terms or have been declared due and payable pursuant to the acceleration provisions of the Capital Obligation Document and have not been paid in full in the case of remedies exercised to enforce such payment, or the holders of a majority (greater than 50%) in aggregate principal amount of the Obligations then Outstanding in the case of any other remedy, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the CHI Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Capital Obligation Document or for the appointment of a receiver or any other proceedings thereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Capital Obligation Document and that the CHI Trustee shall have the right to decline to comply with any such request if the CHI Trustee shall be advised by Counsel (who may be its own Counsel) that the action so directed may not lawfully be taken or the CHI Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of the Obligations not parties to such direction. Pending such direction from the holders of a majority (greater than 50%) in aggregate principal amount of the Obligations Outstanding and any required consent from any credit enhancer, liquidity provider or any other Person granted under any Supplemental Obligation Document, such direction may be given in the same manner and with the same effect by the holder of an Accelerable Instrument upon whose request the CHI Trustee has accelerated the Obligations pursuant to the acceleration provisions of the Capital Obligation Document.

The foregoing notwithstanding, the holders of a majority in aggregate principal amount of the Obligations then Outstanding which are entitled to the exclusive benefit of certain security in addition to that intended to secure all or other Obligations shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the CHI Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Capital Obligation Document, the Supplemental Obligation Document or Documents pursuant to which such Obligations were issued or so secured or any separate security document in order to realize on such security; provided, however, that such direction shall not be otherwise than in accordance with the provisions of law and of the Capital Obligation Document.

Appointment of Receivers. Upon the occurrence of an event of default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the CHI Trustee and the holders of Obligations under the Capital Obligation Document, the CHI Trustee is entitled under the Capital Obligation Document, as a matter of right, to the appointment of a receiver or receivers of the rights and properties, if any, pledged under the Capital Obligation Document and of the revenues, issues, payments and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

Application of Moneys. All moneys received by the CHI Trustee pursuant to any right given or action taken under the provisions of the Capital Obligation Document (except moneys held for the payment of Obligations called for prepayment or redemption which have become due and payable) shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the fees of, expenses, liabilities and advances incurred or made by the CHI Trustee, any Related Issuers and any Related Bond Trustees, be applied to the payment of the Required Payments then due and unpaid upon the Obligations without preference or priority of principal, premium or interest over the others, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal, premium, if any, and interest to the Persons entitled thereto without any discrimination or privilege; provided that no amount shall be paid to any Obligation holder who has extended the time for payment of either principal or interest as described in the Capital Obligation Document until all other principal, premium, if any, and interest owing on Obligations has been paid.

Whenever moneys are to be so applied by the CHI Trustee pursuant to the provisions of the Capital Obligation Document summarized under this heading, such moneys shall be applied by it at such times, and from time to time, as the CHI Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the CHI Trustee shall apply such moneys, it shall fix the date (which shall be an interest payment date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The CHI Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the holder of any unpaid Obligation until such Obligation shall be presented to the CHI Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all Obligations and interest thereon have been paid under the provisions of the Capital Obligation Document summarized under this heading and all expenses and charges of the CHI Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Corporation.

Remedies Vested in CHI Trustee. All rights of action including the right to file proof of claims under the Capital Obligation Document or under any of the Obligations may be enforced by the CHI Trustee without the possession of any of the Obligations or the production thereof in any trial or other proceedings relating thereto and any such suit or proceeding instituted by the CHI Trustee shall be brought in its name as CHI Trustee without the necessity of joining as plaintiffs or defendants any holders of the Obligations, and any recovery of judgment shall be for the equal benefit of the holders of the Outstanding Obligations. Upon the occurrence of an event of default, the CHI Trustee shall, in addition to any other remedies available under the Capital Obligation Document or under applicable law, have the right to enforce the covenants of the Corporation to cause the Participants and Designated Affiliates to comply with the covenants applicable thereto as provided in the Capital Obligation Document.

Rights and Remedies of Obligation Holders. No holder of any Obligation shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Capital Obligation Document or for the execution of any trust thereof or for the appointment of a receiver or any other remedy thereunder, unless a default shall have become an event of default and (a) the holders of 25% or more in aggregate principal amount (i) of the Obligations which have become due and payable in accordance with their terms or have been declared due and payable pursuant to the acceleration provisions of the Capital Obligation Document and have not been paid in full in the case of powers exercised to enforce such payment or (ii) the Obligations then Outstanding in the case of any other exercise of power or (b) the holder of an Accelerable Instrument upon whose request the CHI Trustee has accelerated the Obligations pursuant to the acceleration provisions of the Capital Obligation Document, shall have made written request to the CHI Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers previously granted or to institute such action, suit or proceeding in its own name, and unless the CHI Trustee shall thereafter fail or refuse to exercise the powers previously granted, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are declared in every case at the option of the CHI Trustee to be conditions precedent to the execution of the powers and trusts of the Capital Obligation Document and to any action or cause of action for the enforcement of the Capital Obligation Document, or for the appointment of a receiver or for any other remedy thereunder; it being understood and intended that no one or more holders of the Obligations shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Capital Obligation Document by its, his or their action or to enforce any right under the Capital Obligation Document except in the manner therein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Capital Obligation Document and for the equal benefit of the holders of all Obligations Outstanding. Nothing in the Capital Obligation Document shall, however, affect or impair the right of any holder to enforce the payment of the Required Payments on any Obligation at and after the maturity thereof, or the obligation of the Members to pay the Required Payments on each of the Obligations issued under the Capital Obligation Document to the respective holders thereof at the time and place, from the source and in the manner in said Obligations expressed.

Waiver of Events of Default. If, at any time after the principal of all Obligations shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Capital Obligation Document and before the acceleration of any Related Bond, the Corporation or any other Member of the Obligated Group shall pay or shall deposit with the CHI Trustee a sum sufficient to pay all matured installments of interest upon all such Obligations, if any, and the principal and premium, if any, or any other Required Payments of all such Obligations that shall have become due otherwise than by acceleration (with interest on overdue installments of interest, if any, and on such principal and premium, if any, or other Required Payments, if any, at the rate borne by such Obligations to the date of such payment or deposit, to the extent permitted by law) and the expenses of the CHI Trustee, and any and all events of default under the Capital Obligation Document, other than the nonpayment of Required Payments on such Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case the holders of a majority (greater than 50%) in aggregate principal amount of all Obligations then Outstanding and the holder of each Accelerable Instrument who requested the giving of notice of acceleration, by written notice to the Corporation and to the CHI Trustee, may waive all events of default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent event of default, or shall impair any right consequent thereon.

The Corporation's and Members' Rights of Possession and Use of Property. So long as the Corporation and each Member of the Obligated Group are in full compliance with the terms and provisions of the Capital Obligation Document, the Corporation and each Member shall be permitted to possess, use and enjoy its Property and appurtenances thereto free of claims of the CHI Trustee.

Related Bond Trustee, Credit Enhancer or Holders Deemed To Be Obligation Holders. For the purposes of the Capital Obligation Document, unless a Related Bond Trustee elects to the contrary or contrary provision is made in a Related Bond Indenture, each Related Bond Trustee shall be deemed the holder of the Obligation or Obligations pledged to secure the Related Bonds with respect to which such Related Bond Trustee is acting as trustee. If such a Related Bond Trustee so elects or the Related Bond Indenture so provides, the provider of any credit enhancement for a series of Related Bonds or the holders of each series of Related Bonds shall be deemed the holders of the Obligations to the extent of the principal amount of the Obligations to which their Related Bonds relate.

Supplemental Obligation Documents Not Requiring Consent of Owners of Obligations. Subject to the limitations set forth below under the caption "Supplemental Obligation Documents Requiring Consent of Obligation Holders," the Corporation and the CHI Trustee may, without the consent of, or notice to, any of the owners of Obligation, amend or supplement the Capital Obligation Document, for any one or more of the following purposes:

(a) To cure any ambiguity or defective provision in or omission from the Capital Obligation Document in such manner as is not inconsistent with and does not impair the security of the Capital Obligation Document or adversely affect the owner of any Obligation;

(b) To grant to or confer upon the CHI Trustee for the benefit of the owners of Obligations any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Obligation holders and the CHI Trustee, or either of them, to add to the covenants of the Corporation for the benefit of the Obligation holders or to surrender any right or power conferred under the Capital Obligation Document upon the Corporation;

(c) To assign and pledge under the Capital Obligation Document any revenues, properties or collateral;

(d) To evidence the succession of another corporation to the agreements of the Corporation or the CHI Trustee, or the successor of any thereof under the Capital Obligation Document;

(e) To permit the qualification of the Capital Obligation Document under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute in effect after the date of the Capital Obligation Document or to permit the qualification of any Obligations for sale under the securities laws of any state of the United States;

(f) To provide for the issuance of Obligations;

(g) To reflect the addition to or withdrawal of a Member from the Obligated Group;

(h) To permit an Obligation to be secured by security which is not extended to all Obligation holders;

(i) To modify, eliminate or add to the provisions of the Capital Obligation Document if the CHI Trustee shall have received written confirmation from each Rating Agency that such change will not result in a withdrawal or reduction of its credit rating assigned to any series of Obligations or Related Bonds, as the case may be; and

(j) To make any other change which, in the opinion of the CHI Trustee, does not materially adversely affect the holders of any of the Obligations and, in the opinion of each Related Bond Trustee, does not materially adversely affect the holders of the Related Bonds with respect to which it acts as trustee, including without limitation any modification, amendment or supplement to the Capital Obligation Document or any indenture supplemental thereto in such a manner as to establish or maintain exemption of interest on any Related Bonds under a Related Bond Indenture from federal income taxation under applicable provisions of the Code.

Supplemental Obligation Documents Requiring Consent of Obligation Holders. In addition to Supplemental Obligation Documents permitted by the provisions of the Capital Obligation Document summarized above under the heading "Supplemental Obligation Documents Not Requiring Consent of Owners of Obligations" and subject to the terms and provisions contained in the provisions of the Capital Obligation Document summarized under this heading, and not otherwise, the holders of not less than 51% in aggregate principal amount of the Obligations which are outstanding at the time of the execution of such Supplemental Obligation Document or, in case less than all of the several series of Obligations are affected thereby, the holders of not less than 51% in aggregate principal amount of the Obligations of each series affected thereby which are outstanding at the time of the execution of such Supplemental Obligation Document, shall have the right, from time to time, anything contained in the Capital Obligation Document to the contrary notwithstanding, to consent to and approve the execution by the Corporation and the CHI Trustee of such Supplemental Obligation Documents as shall be deemed necessary and desirable by the Corporation for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Capital Obligation Document or in any Supplemental Obligation Document; provided, however, that nothing contained in the provisions of the Capital Obligation Document summarized under this heading or under the heading "Supplemental Obligation Documents Not Requiring Consent of Owners of Obligations" shall permit, or be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount of, or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the redemption of, any Obligation, without the consent of the holder of such Obligation, (b) a reduction in the aforesaid aggregate principal amount of Obligations the holders of which are required to consent to any such Supplemental Obligation Document, without the consent of the holders of all the Obligations at the time outstanding which would be affected by the action to be taken, (c) the creation of any Lien ranking prior to or on a parity with the Lien of the Capital Obligation Document with respect to the trust estate, if any, subject thereto or terminate the lien of the Capital Obligation Document on any Property at any time subject thereto or deprive the holder of any Obligation of the security afforded by the lien of the Capital Obligation Document, or (d) modification of the rights, duties or immunities of the CHI Trustee, without the written consent of the CHI Trustee.

If at any time the Corporation shall request the CHI Trustee to enter into any such Supplemental Obligation Document for any of the purposes described in the provisions of the Capital Obligation Document summarized under this heading, the Capital Obligation Documents provides that the CHI Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such Supplemental Obligation Document to be mailed by first class mail postage prepaid to each holder of an Obligation or, in case less than all of the series of Obligations are affected thereby, of an Obligation of the series affected thereby. Such notice shall briefly set forth the nature of the proposed Supplemental Obligation Document and shall state that copies thereof are on file at the principal corporate trust office of the CHI Trustee for inspection by all Obligation holders. The CHI Trustee shall not, however, be subject to any liability to any Obligation holder by reason of its failure to mail such notice, and any such failure shall not affect the validity of such Supplemental Obligation Document when consented to and approved as provided in the provisions of the Capital Obligation Document summarized under this heading. If the holders of not less than 51% in aggregate principal amount of the Obligations or the Obligations of each series affected thereby, as the case may be, which are outstanding under the Capital Obligation Document at the time of the execution of any such Supplemental Obligation Document shall have consented to and approved the execution thereof as provided in the provisions of this Capital Obligation Document summarized under this heading, no holder of any Obligation shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the CHI Trustee or the Corporation from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such Supplemental Obligation Document as permitted and provided in the Capital Obligation Document, the Capital Obligation Document shall be and be deemed to be modified and amended in accordance therewith.

For the purpose of obtaining the foregoing consents, the determination of who is deemed the holder of an Obligation shall be made in the manner provided in the Capital Obligation Document.

Defeasance. The Capital Obligation Document and the estate and rights granted thereunder shall cease, determine, and become null and void when all Obligations issued thereunder are no longer Outstanding and the Corporation shall also pay or cause to be paid all other sums payable thereunder. Upon such satisfaction and discharge of the Capital Obligation Document, the CHI Trustee shall, upon Written Request of the Corporation, and upon receipt by the CHI Trustee of an Officer's Certificate of the Corporation and an opinion of Counsel acceptable to the CHI Trustee, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Capital Obligation Document have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Capital Obligation Document and the lien (if any) thereof. The satisfaction and discharge of the Capital Obligation Document shall be without prejudice to the rights of the CHI Trustee to charge and be reimbursed by the Corporation for any expenditures which it may thereafter incur in connection with the Capital Obligation Document.

Any moneys, funds, securities, or other property remaining on deposit under the Capital Obligation Document shall, upon the full satisfaction of the Capital Obligation Document, forthwith be transferred, paid over and distributed to the Corporation.

The Corporation may at any time surrender to the CHI Trustee for cancellation by it any Obligations previously authenticated and delivered which the Corporation may have acquired in any manner whatsoever, and such Obligations, upon such surrender and cancellation, shall be deemed to be paid and retired.

If the Corporation shall pay or provide for the payment of the entire Indebtedness on all Obligations of a particular series, such Obligations shall cease to be entitled to any lien, benefit or security under the Capital Obligation Document. The liability of the Corporation in respect of such Obligations shall continue but the holders thereof shall thereafter be entitled to payment (to the exclusion of all other Obligation holders) only out of the moneys or Escrow Obligations deposited with the CHI Trustee.

Satisfaction of Related Bonds. Any Obligation which secures a Related Bond (a) shall be deemed paid and shall cease to be entitled to the lien, benefit and security under the Capital Obligation Document when the Related Bonds secured by such Obligation are no longer outstanding and (b) shall not be deemed paid and shall continue to be entitled to the lien, benefit and security under the Capital Obligation Document unless and until such Related Bond shall cease to be entitled to any lien, benefit or security under the Related Bond Indenture pursuant to the provisions thereof.

Unclaimed Moneys. Any moneys deposited with the CHI Trustee by the Corporation in accordance with the terms and covenants of the Capital Obligation Document in order to prepay or redeem or pay at maturity any Obligation in accordance with the provisions of the Capital Obligation Document which remain unclaimed by the owners of the Obligation after the Escheat Period shall be repaid by the CHI Trustee to the Corporation upon its Written Request therefor, unless the CHI Trustee has knowledge that the Corporation is in default with respect to any of the terms and conditions of the Capital Obligation Document or any Obligations. Thereafter, the owners of the Obligation shall be entitled to look only to the Corporation for payment thereof.

Immunity of Officers, Employees and Members of the Corporation. No recourse shall be had for the payment of Required Payments on any of the Obligations or for any claim based thereon or upon any obligation, covenant or agreement contained in the Capital Obligation Document against any past, present or future officer, director, employee, member or agent of the Corporation, or of any successor corporation, as such, either directly or through the Corporation or any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officers, directors, employees, members or agents as such is expressly waived and released as a condition of and consideration for the execution of the Capital Obligation Document and the issuance of such Obligations.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate"), dated as of October 31, 2012, is executed and delivered by Catholic Health Initiatives (the "Corporation") in connection with the issuance of $1,500,000,000 of the Catholic Health Initiatives Taxable Bonds, Series 2012 (the "Bonds"). The Bonds are being issued pursuant to a Bond Trust Indenture, dated as of October 1, 2012 (the "Bond Indenture"), between the Corporation and Wells Fargo Bank, National Association, in its capacity as bond trustee (the "Bond Trustee"). The Bonds will be secured under the provisions of the Bond Indenture and will be payable from (1) payments made by the Corporation under the Bond Indenture, (2) payments made by the Corporation on Obligation No. 239 (the "2012 Obligation") issued by the Corporation under the Capital Obligation Document, dated as of November 1, 1997, as supplemented (the "Capital Obligation Document"), between the Corporation and Wells Fargo Bank, National Association, in its capacity as trustee thereunder (the "CHI Trustee") and (3) certain funds held under the Bond Indenture. Under the Capital Obligation Document, the Corporation and any future Members of the Obligated Group are jointly and severally obligated to make payments on the Obligation according to the terms thereof when due. The Corporation covenants and agrees as follows:

SECTION 1 Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Corporation for the benefit of the Holders and Beneficial Owners of the Bonds.

SECTION 2 Definitions. In addition to the definitions set forth in the Bond Indenture and the Capital Obligation Document, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Corporation pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean any Dissemination Agent designated in writing by the Corporation.

"Listed Events" shall mean any of the events listed in Section 5 of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds.

"Repository" shall mean (i) for so long as the Corporation has tax-exempt obligations outstanding, the MSRB, and (2) thereafter, another nationally recognized disclosure site selected by the Corporation or through a website maintained by the Corporation.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3 Provision of Annual and Quarterly Reports.

(a) The Corporation shall, or shall cause the Dissemination Agent to, not later than one hundred fifty (150) days after the end of the Corporation's fiscal year (which fiscal year as of the date hereof ends June 30), commencing with the report for the 2013 fiscal year, provide to the Repository and the Corporation an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. In each case, the Annual Report must be submitted to the Repository in electronic format, accompanied by such identifying information as is prescribed by the Repository, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Corporation and the Participants and the Material Designated Affiliates may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Corporation's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) If the Corporation has appointed a Dissemination Agent, not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repository, the Corporation shall provide the Annual Report to the Dissemination Agent. If by such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Corporation to determine if the Corporation is in compliance with the first sentence of this subsection (b).

(c) If no Dissemination Agent has been appointed by the Corporation and the Corporation does not provide the Annual Report to the Repository by the date required in subsection (a), the Corporation shall send a notice to the Repository in substantially the form attached as Exhibit A.

(d) In addition to the Annual Report required to be filed pursuant to subsection (a), the Corporation shall, or shall cause the Dissemination Agent to, not later than ninety (90) days after the end of each of the first three quarters of the Corporation's fiscal year (which fiscal year as of the date hereof ends June 30), commencing with the quarter ending September 30, 2012, provide to the Repository quarterly unaudited financial information for the Corporation, the Participants and the Material Designated Affiliates prepared by the Corporation. Additionally, the Corporation shall, or shall cause the Dissemination Agent to, not later than ninety (90) days after the end of the fourth quarter of the Corporation's fiscal year (which fiscal year as of the date hereof ends June 30), provide to the Repository quarterly unaudited financial information for the Corporation and the Participants prepared by the Corporation. The unaudited financial information shall include a condensed balance sheet and a consolidated statement of operations, presented on a basis substantially consistent with the format of the financial statements. The quarterly information must be submitted to the Repository in electronic format, accompanied by such identifying information as is prescribed by the Repository.

(e) The Corporation shall (or shall cause the Dissemination Agent, if any, to) file a report with the Corporation (if the Corporation has appointed a Dissemination Agent) and the Corporation certifying that the Annual Report has been provided pursuant to this Disclosure Certificate and stating the date it was provided to the Repository.

SECTION 4 Content of Annual Reports. The Corporation's Annual Report shall contain or include by reference the following:

1. The audited combined financial statements of the Corporation and the Participants for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board. If the financial statements referred to in the preceding sentence do not include the results of operation of any Material Designated Affiliate, the Annual Report shall also include the audited financial statements for each such Material Designated Affiliate prepared in accordance with generally accepted accounting principles on a combined or consolidated basis (if applicable) to include the results of operation of all persons required to be consolidated or combined with such Material Designated Affiliate in accordance with generally accepted accounting principles. If financial statements of a Material Designated Affiliate are included in the Annual Report in accordance with the preceding sentence, the Annual Report shall also contain unaudited financial statements for the CHI Reporting Group (as defined in Appendix A to the Offering Memorandum)

prepared in accordance with generally accepted accounting principles by or at the direction of the chief financial officer of the Corporation based on the audited financial statements described in the two preceding sentences. If such audited financial statements are not available by the time the Annual Report is required to be provided to the Repository pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Offering Memorandum, and the audited financial statements shall be provided to the Repository in the same manner as the Annual Report when they become available.

2. An update of the following information contained in Appendix A to the Offering Memorandum, dated October 25, 2012, related to the Bonds:

a. The number of acute care facilities, long-term care facilities and residential care facilities owned and operated by the CHI Credit Group.

b. Selected financial ratios of the CHI Reporting Group (of the type set forth in the table under the caption "Financial Ratios" in Appendix A) including the debt to capitalization ratio and days cash on hand for the CHI Reporting Group.

c. A summary of the outstanding indebtedness of the CHI Reporting Group.

d. A summary of CHI's investment program, including investment returns.

e. A summary of the liquidity position of the CHI Reporting Group, including information concerning outstanding liquidity facilities.

f. Summary utilization information for the CHI Credit Group, including acute admissions and acute average length of stay and summary utilization information for the Corporation and the Participants, including average length of stay, Medicare case mix index, inpatient surgeries, outpatient surgeries, inpatient ER visits, outpatient ER visits and outpatient non-ER visits

g. A table setting forth the calculation of the Historical Long-Term Debt Service Coverage Ratio for the preceding fiscal year, calculated in accordance with the Capital Obligation Document.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Corporation is an "obligated person" (as defined by the Rule), which have been made available to the public on the MSRB's website. The Corporation shall clearly identify each such other document so included by reference.

SECTION 5 Reporting of Significant Events. The Corporation shall give, or cause to be given, to the Repository notice of the occurrence of any of the following events with respect to the Bonds:

1. principal and interest payment delinquencies;

2. non-payment related defaults, if material;

3. unscheduled draws on debt service reserves reflecting financial difficulties;

4. unscheduled draws on credit enhancements reflecting financial difficulties;

5. substitution of credit or liquidity provider, or their failure to perform;

6. modifications to rights of Bondholders, if material;

7. bond calls, if material, and tender offers;

8. defeasances;

9. release, substitution or sale of property securing repayment of the Bonds, if material;

10. rating changes;

11. bankruptcy, insolvency, receivership, or similar event of an obligated person (as defined in the Rule);

Note: for the purposes of the event identified in subparagraph (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state of federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person;

12. the consummation of a merger, consolidation or acquisition involving an obligated person (as defined in the Rule) or the sale of all or substantially all the assets of an obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

13. the appointment of a successor or additional trustee, or the change in the name of trustee, if material.

Such notice of the occurrence of a Listed Event must be submitted to the Repository, in a timely manner but not in excess of 10 Business Days after the occurrence of such Listed Event, in electronic format, accompanied by such identifying information as is prescribed by the Repository.

SECTION 6 Termination of Reporting Obligation. The Corporation's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the Corporation's obligations under the Bond Indenture are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Certificate in the same manner as if it were the Corporation and the Corporation shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the Corporation shall give notice of such termination or substitution in the same manner as for a Listed Event under Section 5.

SECTION 7 Dissemination Agent. The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Corporation pursuant to this Disclosure Certificate.

SECTION 8 Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Corporation may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Bond Indenture for amendments to the Bond Indenture with the consent of Holders, or (ii) does not, in the opinion of the Bond Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Corporation shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9 Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Corporation chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Corporation shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10 Default. In the event of a failure of the Corporation to comply with any provision of this Disclosure Certificate, the Bond Trustee or any Holder or Beneficial Owner of the Bonds may and, upon the written direction of any Participating Underwriter or any Holders owning less than 25% in aggregate principal amount of all of the Bonds then Outstanding, the Bond Trustee shall take such actions as it may deem necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Corporation to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Bond Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Corporation to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11 Notices. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

To the Corporation: Catholic Health Initiatives
198 Inverness Drive West, Suite 800,
Englewood, CO 80112
Attention: Director, Capital Finance
Telephone: (720) 874-1689
Fax: (720) 874-1515

To the Bond Trustee: Wells Fargo Bank, National Association
625 Marquette Avenue, 11th Floor
MAC N9311-115
Minneapolis, Minnesota 55479
Telephone: (612) 316-0974
Fax: (612) 316-0196

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 12 Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Corporation, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

CATHOLIC HEALTH INITIATIVES

By:____
Vice President, Treasury Services

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Catholic Health Initiatives
Name of Bond Issue:	Catholic Health Initiatives Taxable Bonds, Series 2012
CUSIP Number:	______________________________
Date of Issuance:	October 31, 2012

NOTICE IS HEREBY GIVEN that Catholic Health Initiatives (the "Corporation") has not provided an Annual Report with respect to the above-named Bonds as required by Continuing Disclosure Certificate, dated as of October 31, 2012, executed by the Corporation. [The Corporation anticipates that the Annual Report will be filed by _____________.]

Dated:_______________

CATHOLIC HEALTH INITIATIVES

____

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

CATHOLIC HEALTH INITIATIVES • TAXABLE BONDS, SERIES 2012

CATHOLIC HEALTH INITIATIVES®

A spirit of innovation, a legacy of care.

MIX
From responsible sources
FSC™ C017146
FSC www.fsc.org

Printed by: ImageMaster
www.ImageMaster.com