April 18, 2014

Enclosed are the financial statements of Norton Healthcare, Inc. for the year ended December 31, 2013.

Financial Highlights for the Year Ending December 31, 2013

Revenues and Expenses

For the year ending December 31, 2013, total revenues grew $15.7 million, or less than 1%, to $1.690 billion primarily due to the growth of patient service revenue before bad debt expense of $22.7 million, or 1%, and increases in other revenue of $6.2 million partially offset by an increase in bad debt expense of $10.4 million and a decline in donations and contributions of $3.2 million over the same period in 2012. When comparing 2013 to 2012, inpatient admissions declined 1,205, or 2%, hospital outpatient volume and total outpatient volume declined slightly while physician office visits improved 6%.

In the first quarter of 2012, we began the implementation of a new electronic medical records (EMR) system. Six practice locations in the Norton Medical Group (NMG) converted at that time and the conversion of the remaining practice locations continued throughout 2012. In addition, two hospitals converted on October 1, 2012 with the remaining three hospitals and diagnostic centers converting on March 1, 2013. For the year ending December 31, 2013, EMR implementation costs are $37.6 million compared to $42.1 million in the same period of 2012.

The increase in patient service revenue for 2013 compared to 2012 was due to:

- Commercial rate increases,
- Continued growth in volumes at Norton Brownsboro Hospital (NBH) where inpatient admissions have increased 11% and outpatient volumes increased 10%,
- NMG hired additional specialists and primary care physicians and practice office visits have increased 6%.

Bad debt expense for the year ending December 31, 2013 increased by $10.4 million, or 13%, compared to the prior year. Since the conversion to EPIC, we have seen our accounts receivable balances age longer in the collection cycle and have adjusted the allowance balances to match the aged trial balance reports according to our reserve policies. In the fourth quarter of 2013, improvements in the collection cycle resulted in lower bad debt expense as compared to prior quarters. This indicates stabilization in the patient billing and collection processes.

Other revenue increased $6.2 million, or 23%. NMG is being reimbursed their operating expenses and management fees for a physician practice agreement in Scott County, Indiana, which began in the first quarter of 2013. In October 2012, NMG entered into agreements with hospitals in Henderson and Frankfort, Kentucky to provide pediatric on-call coverage for these two hospitals. In May 2012, we began recording capitation revenue for Norton Louisville Primary Care Center and other NMG practice locations as other revenue. This revenue had previously been recorded in net patient service revenue before bad debt expense. Also, the research office has seen an increase in the number of clinical trials this year compared to last year. Lastly, the American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health records (EHR) technology. Eligibility for annual Medicare and Medicaid incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each year over a four-year period. During the year we attained required program criteria at our hospitals and NMG and submitted attestation that we met the required criteria. We received the hospital monies during 2013 and similar to last year opted to follow a gain contingency methodology for NMG, which provides for the recognition once attainment of program and attestation criteria has been achieved and amounts can be reasonably estimated. Receipt of the NMG monies is expected in early 2014. Revenue recorded under this program increased in 2013 compared to 2012.

Direct expenses increased $13.2 million, or less than 1% compared to the same period in 2012. Major components of this expense growth were:

1. Labor and benefits rose by $23.6 million, or 3%, broken down as follows:

(in millions)	**2013**	**2012**	**% Change**
Salary and Wages	$734.3	$720.1	2%
Contract Labor	7.7	7.0	10%
Benefits	175.8	167.1	5%
Total	$917.8	$894.2	3%

   Salary and wages increased at the System Office ($9.2 million) and Norton Cancer Institute (NCI) ($4.2 million). The System Office added new positions in Care Management and Patient Financial Services (Cash Posting, Customer Service, and Revenue Integrity/Coding departments related to EPIC) and transferred other positions to the Centralized Business Office from NMG. Kentuckiana Cancer Center (KCI) joined NCI effective January 1, 2012 but the physicians of KCI did not become employees of NCI until May 1, 2012. Thus, no salary and wage expense for these physicians was recorded in the first four months of 2012, but was included in salary and wage expense for the entire year of 2013.

   Contract labor costs increased at KCH ($1.4 million) and Norton Hospital ($961,000) partially offset by a decline at Norton Audubon Hospital ($2.0 million). KCH and Norton used temporary services to backfill positions as their nursing staffs attended EMR training sessions. In addition, these hospitals used temporary service in their Environmental Services and Dietary departments where they have unfilled positions. Audubon's reduction was due to using temporary services in 2012 when their facility was converted to EPIC.

   Benefit costs increased due to higher health insurance expense ($7.2 million) and employer contributions to the 403(b)/401(k) benefit plans ($2.2 million) partially offset by lower executive benefit expense ($2.7 million). As a percentage of salary and wage expense, benefit costs were higher than last year but below plan.

2. Drug and supply cost grew $5.9 million, or 2%; $4.4 million in drug expense and $1.5 in supply expense. The increase in drug expense occurred primarily at NCI ($3.0 million), KCH ($964,000), and NMG ($865,000). NCI experienced increased volumes in their retail pharmacy. KCH used more expensive factor drugs in the treatment of hemophiliac patients. NMG dispensed more drugs for immunization primarily at new pediatric practices. Supplies increased primarily at Norton ($2.0 million) in their cardiac catheterization lab and this increase was volume related.

3. The increase in repairs and maintenance ($1.9 million) occurred primarily at the System Office ($1.4 million) due to increases in software maintenance contracts in Information Services and equipment maintenance contracts in Clinical Engineering.

4. Insurance expense decreased $18.7 million, or 42%, primarily for self-insured malpractice insurance coverage. Malpractice insurance expense is determined by external actuaries, who calculate funding levels required to cover our malpractice claims. Based on their most recent report, lower funding levels were necessary due to favorable claims experience and an improvement in the discount rate. In addition to improved hospital claim experience, we have hired additional specialists/physicians the last several years and the claims history for these specialists/physicians has been lower than expected. The original claims estimates were based on national "norms", which are higher than our actual claims experience. The result is lower insurance expense.

5. As expected, EMR implementation costs have had a significant impact on operations. These costs were $37.6 million and $42.1 million for the years ending December 31, 2013 and 2012, respectively. These costs include implementation support provided by outside consultants, internal salary expense, and training costs. The decline from last year to the current year was primarily in implementation support.

6. All other direct expenses increased by $5.0 million, or 2%. Increases in rents and leases, other expenses, utilities, and professional fees were partially offset by decline in equipment rent.

As a result of greater total revenue growth than direct expense growth, EBITDA improved from $107.4 million in 2012 to $109.9 million in 2013.

Fixed expenses, which include depreciation and interest expense, increased $2.2 million, or 2%, $3.8 million in depreciation expense partially offset by a decline in interest expense of $1.6 million. The increase in depreciation expense occurred at the system office ($3.5 million). This is EPIC related as we converted all of our NMG practices to EPIC throughout 2012, two hospitals in October 2012, and three hospitals in March 2013. Thus, there were more hospital facilities and NMG practices on EPIC in 2013 compared to 2012. Increased interest earned on the swap agreements and capitalized interest recorded on construction projects, both of which lower interest expense, were the causes of the decline in interest expense.

Patient service margin improved slightly from a loss of $4.3 million in 2012 to a loss of $4.1 million in 2013, or an improvement of $268,000. Increases in net patient service revenue, other revenue, lower malpractice insurance expense and EPIC implementation costs partially offset by an increase in salary and benefit costs and drugs and supplies were the primary causes for this improvement.

Investment income was $63.2 million and $23.8 million for the years ending December 31, 2013 and 2012, respectively. In January 2013 we made several investment manager changes, which resulted in a higher level of trading activity and reallocations in our investment portfolio than normal. Based on this trading activity, realized gains of $29.2 were recorded. This trading activity also resulted in a significant decline in unrealized gains/losses. Also, improved performance in the alternative investment segment of our investment portfolio partially offset by a decline in interest and dividend income contributed to the increase in investment income.

Operating income was $59.2 million in 2013 compared to $19.5 million 2012. This represents an increase of $39.7 million and was the result of improved investment results.

Other non-operating revenues and expenses show a loss of $1.9 million in 2013, representing a deterioration of $39.7 million from the same period in 2012. Unrealized investment gains totaled $1.7 million and $27.9 million in 2013 and 2012, respectively, as we made investment manager changes in January 2013, discussed in the investment income section above. In October, 2013, our group purchasing organization, Premier Purchasing Partners, L.P. and its parent company, Premier, Inc. went through reorganization and an initial public offering (IPO). Our portion of the proceeds from the IPO totaled $14.3 million. In September 2013, we issued three bond offerings totaling $275.0 million. A portion of the proceeds along with approximately $26.0 million of cash were used to refund $102.0 million of our fixed rate debt. In October 2012, we issued a $21.1 million fixed rate bond offering. A portion of the proceeds were used to retire a portion of our fixed rate debt. The losses on the extinguishment of debt associated with these bond issues totaled $3.8 million and $542,000 in 2013 and 2012, respectively. Losses on the write down of certain hardware of software costs ($2.4 million) plus the write-off of a feasibility study at KCH ($419,000) were recorded in 2013 compared to write-offs of beds being replaced as part of our bed replacement initiative at Audubon, Norton and KCH and feasibility studies at KCH and the System Office ($1.7 million) in 2012. The change in mark to market loss position on the swap agreements deteriorated $10.0 million in 2013 compared to improving $11.8 million in 2012. The James R. Petersdorf Fund grants totaled $1.4 million and $55,000 in 2013 and 2012, respectively. The 2012 amounts included an adjustment to a grant awarded in 2010 for back pain research that was not completely used. We were notified in 2012 that the project was closed. Accordingly, the remaining liability to fund this grant was reversed lowering expense.

Other equity transactions show a loss of $4.3 million compared to a gain of $1.0 million for the years ending December 31, 2013 and 2012, respectively. Unfavorable adjustments to match the pension asset to the funded status of the plan were made in the current year compared to the prior year. This was caused by lump sum payments made by the plan, additional settlement charges related to these lump sum payments, and investment results. The amount of restricted contributions used to purchase capital assets was $2.3 million less in 2013 compared to 2012.

Net assets increased by $53.0 million and $58.3 million for the years ending December 31, 2013 and 2012, respectively, a decline of $5.3 million.

Balance Sheet – December 31, 2013 compared to December 31, 2012

Working capital increased $35.1 million compared to the prior year due to a net increase in cash and marketable securities plus a decline in accounts payable partially offset by increases in accrued expenses, due to third party payors, and accrued payroll items and a decline in net patient receivables.

Significant items impacting cash and marketable securities:

- Collections on hospital/physician practice patient receivables and other miscellaneous receipts,
- Bond proceeds,
- Short term investment activity, net,
- Proceeds from the Premier, Inc. IPO,
- Receipt of Intensity Operating Allowance payment from Passport and Kentucky Medicaid,
- The receipt of distributions from our joint venture in Premier Purchasing Partners, L.P.,
- Receipt of meaningful use incentive payments,
- Receipt of tentative cost report settlements from Medicare and Medicaid Disproportionate Share,
- Receipt of interest payment on the swap agreements,
- Receipt of graduate medical education payments from Passport,
- Receipt of the Kosair Charities special projects contributions,

which were partially offset by:

- Payments made for trade payables, payroll and related taxes, self-insurance claims, and provider taxes,
- The purchase of capital assets,
- Bond principle deposits,
- Payment of malpractice claims,
- Employer contributions to the 403(b) and 401(k) savings plans,
- Funding the semi-annual interest payments on our debt,
- Payments for property insurance,
- Software licensing fees.

The change in accounts payable is due to timing. Accrued expenses includes accruals for a new pediatric affiliation agreement that is in negotiations, employer contributions on the 403(b)/401(k) savings plans, and current portion of the malpractice insurance liability. Due to third party payors includes reserves established to cover potential issues related to Recovery Audit Contractor and Office of Inspector General claim reviews and managed care insurance company overpayments to us less reductions in our cost report reserves. The increase in accrued payroll items was due to the timing of our payroll cycle compared to the monthly calendar and to an increase in accrued vacation. Higher patient service revenue before bad debt expense in the fourth quarter of 2013 compared to the same period in 2012 contributed to the increase in gross patient receivables. This increase was more than offset by the increase allowance for bad debts. Since the conversion to EPIC, we have seen our accounts receivable balances age longer in the collection cycle and have adjusted the allowance balances to match the aged trial balance reports according to our reserve policies.

Cash and investments available for debt service increased $111.6 million, as follows:

(in millions)	12/31/2013	12/31/2012	Change
Operating Cash	$207.1	$110.8	$ 96.3
Marketable Securities	18.6	64.1	(45.5)
Board Designated Funds	535.7	472.7	63.0
Bond Trustee Funds	30.2	32.4	(2.2)
Total	$791.6	$680.0	$111.6

This increase was caused by an improved cash position, discussed above, and favorable investment results, discussed in the investment income section above. As a result, our days of cash on hand increased to 220 at December 31, 2013 from 191 at December 31, 2012.

Accounts receivable days outstanding declined from 44.6 as of December 31, 2012 to 42.1 as of December 31, 2013.

The increase in assets limited by Board of Trustees was due to favorable investment performance as we made several fund manager changes in January 2013, discussed in the investment income section above. Although not included in the Bond Trustee Funds amounts above, are $73.5 million in bond proceeds to be used for renovations and equipment to convert Suburban to a women's and children's hospital along with other various projects. These amounts are not available for debt service. The increase in assets limited by Self Insurance Trust (Trust) was caused by contributions made to the Trust being greater than claim payments plus improved investment performance.

Property and equipment increased $75.2 million to $762.1 million. This was the result of capital spending, primarily for construction at Suburban, the new EMR system, the KCH master plan design, a linear accelerator at NCI, the system bed replacement project, and build out of unutilized space at NBH offset by depreciation.

The decline in other assets was caused by retirement plan payments, pension portfolio investment results, a deterioration in the mark to market position on the swap agreements, and a decrease in our equity position in Premier Purchasing Partners, L.P. These items were partially offset by increases in physician guarantee assets, long term malpractice reinsurance, planned giving at the foundations, and executive benefit plan assets.

Other non-current liabilities increased $27.0 million due to accruals recorded for malpractice insurance claims net of claim payments, and increases in the mark to market loss position on the swap agreements, physician guarantee liabilities, and executive benefit plan liabilities.

Total debt increased $182.4 million. As discussed in the other non-operating revenues and expenses section above, we issued three bond offerings totaling $275.0 million. These bond offerings are a combination of variable and fixed rate debt. A portion of the proceeds along with approximately $26.0 million of cash were used to refund $102.0 million of our fixed rate debt. The new debt is being used for renovations and equipment to convert Suburban to a women's and children's hospital along with other various projects. Also, increasing debt were capitalized leases at three property locations and amortization of bond discounts less payments on the debt.

If you have any questions or concerns, please contact Helena Schulz at (502) 629-8263 or by e-mail at helena.schulz@nortonhealthcare.org. Thank you for your ongoing interest in Norton Healthcare.

Sincerely,

Michael W. Gough
Senior Vice President
and Chief Financial Officer

Combined Financial Statements

Norton Healthcare, Inc. and Affiliates
Years Ended December 31, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

Norton Healthcare, Inc. and Affiliates

Combined Financial Statements

Years Ended December 31, 2013 and 2012

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EY
Building a better working world

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Report of Independent Auditors

The Board of Trustees
Norton Healthcare, Inc. and Affiliates

We have audited the accompanying combined financial statements of Norton Healthcare, Inc. and Affiliates, which comprise the combined balance sheets as of December 31, 2013 and 2012, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Norton Healthcare, Inc. and Affiliates at December 31, 2013 and 2012, and the combined 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.

Ernst + Young LLP

April 7, 2014

Norton Healthcare, Inc. and Affiliates

Combined Balance Sheets

	December 31 2013	2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 207,126,162**	$ 110,740,014
Marketable securities and other investments	**18,620,560**	64,121,320
Patient accounts receivable, less allowance for doubtful accounts of $94,221,000 for 2013 and $82,946,000 for 2012	**194,404,907**	198,829,300
Inventory	**46,422,106**	46,907,160
Prepaid expenses and other	**22,088,204**	22,132,796
Miscellaneous receivables	**19,711,063**	19,408,370
Current portion of assets limited as to use	**29,458,456**	27,996,556
Total current assets	**537,831,458**	490,135,516
Assets limited as to use	**808,621,238**	640,869,096
Property and equipment, net	**762,055,179**	686,845,981
Other assets:		
Investments in joint ventures	**8,996,547**	11,726,089
Pension	**14,678,611**	25,068,720
Pledges receivable, net	**25,711,931**	24,687,175
Beneficial interest in trusts held by others	**21,300,318**	19,280,956
Goodwill and intangible assets, net, less accumulated amortization of $4,200,000 for 2013 and $4,057,000 for 2012	**20,434,300**	20,576,859
Deferred financing costs, net	**10,862,158**	12,062,403
Interest rate swap asset	**–**	3,567,943
Other	**30,672,994**	19,131,949
Total other assets	**132,656,859**	136,102,094
Total assets	**$ 2,241,164,734**	$ 1,953,952,687

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	December 31	
	2013	**2012**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 60,323,794**	$ 63,768,588
Accrued expenses and other	**119,472,194**	113,300,503
Accrued payroll and related items	**77,815,983**	73,451,734
Due to third-party payors, net	**17,632,043**	11,572,987
Accrued interest	**6,667,716**	5,837,701
Current portion of long-term debt	**27,717,070**	28,143,000
Total current liabilities	**309,628,800**	296,074,513
Other noncurrent liabilities:		
Insurance liability	**120,364,007**	112,541,791
Interest rate swap liability	**6,396,829**	–
Other	**51,082,975**	39,324,660
Total other noncurrent liabilities	**177,843,811**	151,866,451
Long-term debt, net of current portion	**906,758,444**	723,962,952
Net assets:		
Unrestricted	**734,877,938**	682,236,919
Temporarily restricted	**73,020,123**	65,246,995
Permanently restricted	**39,035,618**	34,564,857
Total net assets	**846,933,679**	782,048,771
Total liabilities and net assets	**$ 2,241,164,734**	$ 1,953,952,687

See accompanying notes.

Norton Healthcare, Inc. and Affiliates

Combined Statements of Operations and Changes in Net Assets

	Year Ended December 31	
	2013	**2012**
Unrestricted revenue:		
Net patient service revenue before provision for doubtful accounts	**$ 1,733,490,259**	$ 1,710,813,415
Provision for doubtful accounts	**(89,650,246)**	(79,253,967)
Net patient service revenue	**1,643,840,013**	1,631,559,448
Other revenue	**24,785,167**	19,271,466
Donations and contributions	**10,257,887**	13,469,215
Meaningful use incentive payments	**7,671,259**	7,021,457
Joint venture revenue	**3,842,800**	3,404,765
Total unrestricted revenue	**1,690,397,126**	1,674,726,351
Operating expenses:		
Labor and benefits	**917,765,279**	894,181,697
Professional fees	**55,398,967**	54,354,379
Drugs and supplies	**333,349,768**	327,436,089
Fees and special services	**86,664,797**	86,293,551
Repairs, maintenance, and utilities	**58,204,260**	55,067,924
Rent and leases	**30,422,102**	29,480,691
Insurance	**25,989,836**	44,659,232
Provider tax	**20,129,732**	20,129,732
Electronic medical record implementation	**37,561,137**	42,090,295
Other	**15,001,461**	13,605,607
Total operating expenses	**1,580,487,339**	1,567,299,197
Earnings before fixed expenses and other gains (losses)	**109,909,787**	107,427,154
Fixed expenses:		
Depreciation and amortization	**84,780,677**	80,953,214
Interest expense	**33,610,406**	34,218,731
Interest rate swap benefit, net	**(4,415,636)**	(3,411,208)
	113,975,447	111,760,737
Patient service margin	**(4,065,660)**	(4,333,583)

Continued on next page.

Norton Healthcare, Inc. and Affiliates

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

	Year Ended December 31	
	2013	**2012**
Patient service margin	**$ (4,065,660)**	$ (4,333,583)
Investment gain	**63,247,211**	23,786,708
Operating gain	**59,181,551**	19,453,125
Nonoperating gains (losses):		
Change in net unrealized gains on investments	**1,717,473**	27,872,526
Change in interest rate swap value	**(9,964,772)**	11,820,971
Petersdorf Fund grants	**(1,383,000)**	(54,894)
Loss on extinguishment of debt	**(3,804,215)**	(541,835)
Premier initial public offering proceeds	**14,286,580**	–
Other nonoperating losses, net	**(2,711,879)**	(1,252,647)
Total nonoperating (losses) gains	**(1,859,813)**	37,844,121
Excess of revenue over expenses	**57,321,738**	57,297,246
Unrestricted net assets:		
Change in pension plan asset and obligation	**(9,448,694)**	(6,447,476)
Net assets released from restrictions for equipment	**5,137,894**	7,484,431
Transfer to establish endowment fund	**(369,919)**	–
Increase in unrestricted net assets	**52,641,019**	58,334,201
Temporarily restricted net assets:		
Investment gain	**5,541,068**	2,644,501
Contributions, fees, grants, bequests, net	**12,612,510**	13,040,685
Change in beneficial interest in trusts held by others	**37,113**	30,350
Change in net unrealized gains on investments	**33,956**	2,174,915
Net assets released from restrictions	**(10,321,438)**	(11,617,178)
Transfer to establish endowment fund	**(130,081)**	–
Increase in temporarily restricted net assets	**7,773,128**	6,273,273
Permanently restricted net assets:		
Change in beneficial interest in trusts held by others	**2,392,249**	1,131,278
Investment gain	**157,156**	38,620
Contributions, fees, grants, bequests, net	**1,423,249**	(79,862)
Change in net unrealized (losses) gains on investments	**(1,893)**	75,400
Transfer to establish endowment fund	**500,000**	–
Increase in permanently restricted net assets	**4,470,761**	1,165,436
Increase in net assets	**64,884,908**	65,772,910
Net assets at beginning of year	**782,048,771**	716,275,861
Net assets at end of year	**$ 846,933,679**	$ 782,048,771

See accompanying notes.

Norton Healthcare, Inc. and Affiliates

Combined Statements of Cash Flows

	Year Ended December 31 2013	2012
Operating activities		
Increase in net assets	$ **64,884,908**	$ 65,772,910
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**84,780,677**	80,953,214
Discount accretion	**8,644,757**	8,434,287
Premier initial public offering proceeds	**(14,286,580)**	–
Change in net unrealized gains on investments	**(1,749,536)**	(30,122,841)
Change in interest rate swap value	**9,964,772**	(11,820,971)
Change in pension plan asset and obligation	**9,448,694**	6,447,476
Loss on extinguishment of debt	**3,804,215**	541,835
Restricted contributions and investment gain	**(12,211,826)**	(5,188,394)
Changes in operating assets and liabilities:		
Change in patient accounts receivable, net of provision for doubtful accounts	**4,424,393**	(22,841,857)
Change in assets limited as to use, net	**(167,464,506)**	(18,006,461)
Change in amounts due to third-party payors	**6,059,056**	(6,757,104)
Change in other current and noncurrent assets and liabilities	**59,264,047**	(1,694,046)
Net cash provided by operating activities	**55,563,071**	65,718,048
Investing activities		
Purchase of property and equipment	**(159,989,875)**	(99,325,499)
Premier initial public offering proceeds	**14,286,580**	–
Change in joint ventures and other	**2,729,542**	(2,639,193)
Net cash used in investing activities	**(142,973,753)**	(101,964,692)
Financing activities		
Increase in long-term debt	**304,293,198**	24,092,787
Principal payments on long-term debt	**(25,148,393)**	(29,399,974)
Payment on 1997 bonds	–	(20,358,675)
Payment on 2000C bonds	**(105,420,000)**	–
Costs of long-term debt issuances	**(2,139,801)**	(173,465)
Restricted contributions and investment gain	**12,211,826**	5,188,394
Net cash provided by (used in) financing activities	**183,796,830**	(20,650,933)
Increase (decrease) in cash and cash equivalents	**96,386,148**	(56,897,577)
Cash and cash equivalents at beginning of year	**110,740,014**	167,637,591
Cash and cash equivalents at end of year	$ **207,126,162**	$ 110,740,014

See accompanying notes.

1. Description of Organization and Summary of Significant Accounting Policies

Organization

The accompanying combined financial statements of Norton Healthcare, Inc. (the Corporation) include the transactions and accounts of Norton Healthcare, Inc. (the controlling company) and Affiliates, including the following: Norton Hospitals, Inc., Norton Enterprises, Inc., Norton Properties, Inc., The Children's Hospital Foundation, Inc., Norton Healthcare Foundation, Inc., and Community Medical Associates, Inc. Norton Healthcare, Inc. and Affiliates are collectively hereafter referred to as the Corporation. The Corporation operates in the Louisville, Kentucky, metropolitan area, and its operations include 1,837 licensed beds, more than 120 physician practice and Norton Immediate Care Center locations, and other ancillary health care services.

All significant intercompany transactions and accounts have been eliminated in combination.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include all cash and highly liquid investments that are neither internally nor externally restricted. The Corporation considers highly liquid investments to be cash equivalents when they are both readily convertible to cash and so near to maturity (typically within three months) that their value is not subject to risk due to changes in interest rates. The amount of cash and cash equivalents carried in the combined balance sheets represents fair value.

Marketable Securities and Other Investments

Marketable securities and other investments consist primarily of marketable debt securities which are used by the organization to support operations.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Allowance for Doubtful Accounts

The provision for doubtful accounts 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. Periodically throughout the year, management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for doubtful accounts to establish an appropriate allowance for doubtful accounts.

Inventory

Inventories (primarily medical and surgical supplies and pharmaceuticals) are primarily carried at the lower of cost (first-in, first-out method) or market.

Assets Limited as to Use and Investment Results

Assets limited as to use include a portfolio of investments that are set aside by the Board of Trustees (the Board) for future services, indigent care, education, research, and community health initiatives over which the Board retains control and may, at its discretion, subsequently use for other purposes. This portfolio of investments also includes assets restricted by donors. The Corporation utilizes a pooled investment program (Master Trust Fund) to manage this portfolio of investments. Income is allocated to each entity based on their relative investment balance to the total investment balance by type of investment. All entities which participate in the Master Trust Fund are included in these combined financial statements. Other investments within assets limited as to use include assets held by trustees under a self-insurance trust agreement, and assets under bond indenture trust agreements. Amounts required to meet current liabilities of the Corporation have been classified as current in the combined balance sheets at December 31, 2013 and 2012.

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such change could materially affect the amounts reported in the combined balance sheets.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

All investment securities are considered trading. Included in investment gain are interest, dividends, realized gains and losses on investments, and changes in value of investments carried at net asset value (NAV). Investment gain and the change in net unrealized gains on investments are included in the excess of revenue over expenses unless a donor or law restricts the income or loss.

Alternative investments, including hedge funds and real estate funds, are recorded under the equity method of accounting using NAV. The NAV of alternative investments is based on valuations provided by the administrators of the specific financial instrument. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, and private equity investments. The underlying investments themselves are subject to various risks, including market, credit, liquidity, and foreign exchange risk. The Corporation believes the NAV is a reasonable estimate of its ownership interest in the alternative investments. The Corporation's risk of alternative investments is limited to its carrying value. Alternative investments can be divested only at specified times in accordance with terms of the subscription agreements. The financial statements of the alternative investments are audited annually. Because these financial instruments are not readily marketable, the estimated carrying value is subject to uncertainty, and, therefore, may differ from the value that would have been used had a market for such financial instruments existed. The change in the carrying value of the alternative investments is included in investment results.

Fair Value of Financial Instruments

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

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, and as noted above,

1. Description of Organization and Summary of Significant Accounting Policies (continued)

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

- 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.

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 Corporation'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 Corporation 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 Corporation, including those traded on exchanges, to determine value. The third approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of the Corporation'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).

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed primarily using the straight-line method. Land improvements are depreciated over 8 to 25 years. Buildings are depreciated over 5 to 40 years. Equipment is depreciated over 3 to 20 years. Useful lives of assets are determined by consultation with the American Hospital Association's Life of Depreciable Hospital Assets and consideration of how the Corporation intends to use the asset or has used similar assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the combined financial statements.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses. Such gifts are recorded at fair value at the date of donation. 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 temporarily restricted support.

Investments in Joint Ventures

The Corporation 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. Joint venture revenue, excluding alternative investments, of $3.8 million and $3.4 million in 2013 and 2012, respectively, is included in unrestricted revenue.

Goodwill and Intangible Assets

The Corporation follows the provisions of ASC 958, *Not-for-Profit Entities* (ASC 958), which provides guidance for a not-for-profit entity with respect to goodwill and other intangible assets subsequent to an acquisition. In accordance with ASC 958, the Corporation tests goodwill and indefinite-lived intangible assets for impairment on an annual basis (October 1) utilizing qualitative and quantitative factors and between annual tests in certain circumstances. The Corporation has goodwill and indefinite-lived intangible assets recorded related to a pathology laboratory, several physician practices, diagnostic centers, and an ambulatory surgical center license totaling $20.3 million at December 31, 2013 and 2012, respectively. The annual

1. Description of Organization and Summary of Significant Accounting Policies (continued)

impairment test performed in 2013 and 2012 resulted in no adjustments to recorded goodwill. Separate intangible assets, net of accumulated amortization, of $160,000 and $302,000 at December 31, 2013 and 2012, respectively, that are not deemed to have an indefinite life, continue to be amortized over their useful lives.

Deferred Financing Costs, Net

Deferred financing costs, net were $10.9 million and $12.1 million at December 31, 2013 and 2012, respectively. The costs are being amortized over the life of the respective bond issues using the effective- interest method for fixed-rate bonds and the bonds outstanding method for variable-rate bonds.

Medical Malpractice and General Liability Self-Insurance

The Corporation is self-insured for medical malpractice and general liability claims. The provision for estimated self-insured medical malpractice and general liability claims includes estimates of the ultimate costs of settlement for both reported claims and claims incurred but not reported. The Corporation recorded insurance liabilities of $150.3 million and $140.2 million as of December 31, 2013 and 2012, respectively. Additionally, the Corporation has recorded a receivable of $12.3 million and $9.3 million as of December 31, 2013 and 2012, respectively, for anticipated reinsurance recoveries. The current and noncurrent anticipated reinsurance recoveries are included in miscellaneous receivables and other assets, respectively, in the combined balance sheets. Insurance liabilities of $32.2 million and $30.2 million are included in accrued expenses and other current liabilities at December 31, 2013 and 2012, respectively, based on the expectation of the payout of claims in the subsequent year. The Corporation recorded a decrease in insurance expense of approximately $15.0 million in 2013 related to changes in actuarial estimates reflecting lower claim activity, closed claims, improved claim resolution history, and other environmental factors. The Corporation has engaged independent actuaries to estimate the ultimate costs of the settlement of such claims. Recorded medical malpractice and general liability self-insurance liabilities, discounted at 1.75% and 0.75% in 2013 and 2012, respectively, represent management's best estimate of ultimate costs.

The Corporation has excess loss insurance coverage for claims over the self-insured limits on a claims-made basis. Through the excess loss commercial policy, the Corporation is insured for losses up to established individual and aggregate claim limits.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

The Corporation's management is of the opinion that the accompanying combined financial statements will not be materially affected by the ultimate cost related to asserted and unasserted claims, if any, at the combined balance sheet date.

Under the terms of the self-insurance trust agreements for the self-insurance funds, the Corporation makes annual deposits with its trustee based upon actuarial funding recommendations. Amounts deposited and interest thereon can only be used to pay self-insured losses and related expenses. Such trust fund assets are reported as assets limited as to use. Investment returns from trusteed assets are recorded as investment gain and change in unrealized gains on investments as applicable.

Temporarily and Permanently Restricted Net Assets

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

Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payment to the Corporation at amounts different than the Corporation's established charges. Payment arrangements include prospectively determined rates per discharge based on severity of illness, per-diems, discounted charges, reimbursed costs, and flat fees.

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. The Corporation recognizes a significant amount of net patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay. As a result, the provision for doubtful accounts is presented as a deduction from net patient service revenue.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Excess of Revenue Over Expenses

The combined statements of operations and changes in net assets include subtotals for patient service margin, operating gain, and excess of revenue over expenses The line excess of revenue over expenses represents the operating indicator for the Corporation as defined under GAAP. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include or may include contributions of long-lived assets, net assets released from restriction for equipment, investment returns on restricted assets, and changes in pension plan asset and obligation.

Charity Care

As a part of its not-for-profit mission, the Corporation provides care to patients who may be unable to pay. For those patients meeting certain criteria, the Corporation does not pursue collection of amounts determined to qualify as charity care. The Corporation follows FASB Accounting Standards Update (ASU) 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure (ASU 2010-23).* ASU 2010-23 requires that cost be used as the measurement for charity care disclosure purposes and that cost be identified as the direct and indirect cost of providing charity care. ASU 2010-23 also requires corporations to disclose any reimbursement received to offset the cost of providing charity care. The Corporation estimates charity care cost by calculating a ratio of cost to gross charges, and then multiplying the ratio by the gross charges attributable to patients that qualify for charity care, based on the Corporation's policy. The cost associated with charity care provided in 2013 and 2012 was $23.1 million and $20.4 million, respectively. These amounts are not included in net patient service revenue. To offset the cost of charity care provided, the Corporation received state means program reimbursement of $3.9 million and private contributions of $0 in 2013 and state means program reimbursement of $4.1 million and private contributions of $5.5 million in 2012.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation 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

1. Description of Organization and Summary of Significant Accounting Policies (continued)

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 and changes in net assets as donations and contributions if the purpose relates to operations, or as a change in unrestricted net assets if the purpose relates to purchase of property and equipment.

Meaningful-Use Incentive Payments

The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health records (EHR) technology. 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. The Corporation has opted to follow a gain contingency method, under ASC 450, *Contingencies*, which provides for recognition once attainment of program and attestation criteria has been achieved and amounts can be reasonably estimated. The Corporation met the conditions of the meaningful use incentive program in 2013 and 2012, and, as a result, the Corporation estimated and recorded revenue of approximately $7.7 million and $7.0 million in the years ended December 31, 2013 and 2012, respectively. Amounts recognized are subject to change, with such changes impacting operations in the period in which they occur.

Beneficial Interest in Trusts Held by Others

The Corporation is an income beneficiary of irrevocable trust funds held by others. The Corporation has recorded the fair value of the ownership interest of the trusts as temporarily and permanently restricted net assets, as applicable.

Contributions Received and Pledges Receivable

Pledges received are recorded as revenue in the year made. Unconditional donor pledges to give cash, marketable securities, and other assets are reported at present value, through a discounted cash flow approach, at the date the pledge is made. Pledges receivable are discounted based on the nature of the individual pledge consistent with Corporation policy. Discount rates ranged from 0.05% to 4.73% at December 31, 2013 and 2012. Discount rates reflect the economic

1. Description of Organization and Summary of Significant Accounting Policies (continued)

conditions of the year in which the pledge is made. Conditional donor promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges received with donor restriction that limit the use of the donated assets are reported as either temporary or permanently restricted support until the donor restriction expires. An allowance is recorded for amounts the Corporation has deemed uncollectible.

Outstanding pledges receivable from various corporations, foundations, and individuals at December 31 are as follows:

	2013	2012
Gross pledges due:		
In less than one year	$ **10,150,953**	$ 6,683,311
In one to five years	**15,189,774**	14,388,215
In more than five years	**20,746,365**	20,336,324
	46,087,092	41,407,850
Allowance for uncollectible pledges	**(1,595,661)**	(794,721)
Discounting	**(10,212,067)**	(10,037,364)
Net pledges receivable	$ **34,279,364**	$ 30,575,765

The current portion of pledges receivable, included in miscellaneous receivables, was approximately $8.6 million and $5.9 million at December 31, 2013 and 2012, respectively. The remaining net pledges receivable balance is included in other assets.

Income Taxes

Most of the income received by the Corporation is exempt from taxation under Section 501(a) of the Internal Revenue Code. Some of the Corporation's affiliates are taxable entities and some of the income received by otherwise exempt entities is subject to taxation as unrelated business income. The Corporation files federal and Kentucky state income tax returns. The statute of limitations for tax years 2010 through 2012 remains open in the major U.S. taxing jurisdictions in which the Corporation is subject to taxation. In addition, for all tax years prior to 2010 generating or utilizing a net operating loss (NOL), tax authorities can adjust the amount of NOL carryforward to subsequent years. The Corporation has net operating loss carryforwards for income tax purposes of approximately $12.3 million at December 31, 2013 ($10.9 million at

1. Description of Organization and Summary of Significant Accounting Policies (continued)

December 31, 2012) that expire from 2018 to 2033. The Corporation completed an analysis of its tax positions at December 31, 2013 and 2012, and determined that no uncertain tax provisions were required to be recognized under ASC 740, *Income Taxes*, in the combined financial statements.

As a result of the net operating loss carryforwards, the Corporation records a deferred income tax asset. The deferred income tax asset was $4.7 million and $4.2 million at December 31, 2013 and 2012, respectively, and is included in other assets on the combined balance sheets.

Recent Accounting Pronouncements

The FASB has issued ASU No. 2011-11, *Disclosures About Offsetting Assets and Liabilities* (ASU 2011-11). ASU 2011-11 requires disclosures that affect all entities with financial instruments and derivatives that are either offset on the combined balance sheet in accordance with ASC 210-20-45 or ASC 815-10-45, or subject to a master netting arrangement, irrespective of whether they are offset on the combined balance sheet. ASU 2011-11 is effective for annual periods beginning on or after January 1, 2013. The Corporation has adopted the provisions of ASU 2011-11 and made all required combined financial statement disclosures.

2. Community Service (Unaudited)

The Corporation continues to build on a tradition of community service established over 100 years ago by its predecessor organizations, with a mission to provide quality health care to all those served. Through Kosair Children's Hospital, a 263-bed facility, tertiary, and acute-level inpatient services, and Kosair Children's Medical Center, emergency and outpatient specialty care, are provided to children who live throughout Kentucky and Southern Indiana, regardless of ability to pay. In addition, many patients treated at Norton Hospital, Norton Audubon Hospital, Norton Suburban Hospital, and Norton Brownsboro Hospital receive free or discounted care. The Corporation is a major participant in the residency and medical education programs of the University of Louisville School of Medicine.

2. Community Service (Unaudited) (continued)

The Corporation uses the 2008 edition of the Catholic Health Association's *Guide for Planning and Reporting Community Benefit* (CHA guidelines) to report the community benefit amounts.

In 1987, the Corporation established a fund designated for providing indigent care, education, research, and community health initiatives, now known as the James R. Petersdorf Fund (Petersdorf Fund) (Note 4). Other programs that benefit the Corporation's community are listed below. The costs associated with providing community service for the years ended December 31 are as follows:

	2013	2012
Charity care[(A)]	**$ 19,167,809**	$ 16,346,138
Educational support	**28,433,765**	23,661,083
Unpaid cost of Medicaid services	**90,625,024**	80,437,016
Sponsorships	**1,194,146**	975,775
Pastoral care and counseling programs	**1,737,328**	1,772,366
Kentucky Poison Control Center	**2,119,378**	1,933,314
Child guidance and advocacy program	**1,012,476**	958,016
Community cancer initiatives	**2,946,024**	2,797,625
Community service activities	**1,294,288**	974,519
Other community benefits	**7,766,377**	7,899,665
	$ 156,296,615	$ 137,755,517

(A) Consistent with Internal Revenue Service (IRS) Form 990 requirements and CHA guidelines, this amount is to be reported net of state means programs only. The Corporation received state means program reimbursement of $3.9 million and $4.1 million in 2013 and 2012, respectively.

The unpaid cost of Medicaid services increased from the previous year as a result of an increase in costs with no corresponding increase in reimbursement and a reduction in Medicaid reimbursement for certain services provided.

3. Property and Equipment

Property and equipment at December 31 consists of:

	2013	2012
Land and land improvements	**$ 41,326,957**	$ 41,004,733
Buildings	**732,941,818**	690,838,435
Equipment	**902,537,756**	809,821,033
	1,676,806,531	1,541,664,201
Accumulated depreciation and amortization	**(1,022,530,481)**	(943,577,893)
	654,276,050	598,086,308
Construction in process	**107,779,129**	88,759,673
	$ 762,055,179	$ 686,845,981

Equipment includes computer software costs of $58.4 million and $50.8 million at December 31, 2013 and 2012, respectively, which are primarily related to the Corporation's implementation of a new clinical and revenue cycle information system. The expense related to computer software recorded in depreciation and amortization expense on the combined statements of operations and changes in net assets was $32.2 million and $29.5 million for the years ended December 31, 2013 and 2012, respectively.

4. Assets Limited as to Use and Investment Return

Asset Limited as to Use

The composition of assets limited as to use at December 31 is set forth in the following table by type of Board designation or restriction. Assets limited as to use are carried at fair value, except for alternative investments (consisting primarily of hedge funds and real estate funds), which are accounted for under the equity method of accounting.

	2013	2012
By Board of Trustees for indigent care, education, research, and community health initiatives (Petersdorf Fund)	**$ 117,277,411**	$ 105,186,117
By Board of Trustees	**418,438,957**	367,502,041
By self-insurance trust agreements	**154,334,114**	124,615,737
Less current portion	**(29,323,462)**	(27,857,814)
	125,010,652	96,757,922
By bond indenture trust agreements	**103,809,161**	32,565,472
Less current portion	**(134,994)**	(138,742)
	103,674,167	32,426,730
By donors	**44,220,051**	38,996,285
	$ 808,621,238	$ 640,869,096

The Corporation's investment portfolio is structured in a manner that matches investment risk and return. Short-term volatility and uncertainty of investment results are recognized as real risks that are managed through specific asset allocation strategies and diversification.

4. Assets Limited as to Use and Investment Return (continued)

The Corporation's actual weighted-average allocations for assets limited as to use at December 31, by asset category, are as follows:

	2013	2012
Cash and cash equivalents	**14.7%**	5.5%
Marketable debt securities	**27.0**	31.0
Domestic equities	**9.8**	11.0
International equities	**0.8**	10.9
Global equities	**16.3**	12.7
Hedge funds	**18.2**	13.9
Real estate funds	**13.2**	15.0
	100.0%	100.0%

4. Assets Limited as to Use and Investment Return (continued)

Investment Return

Investment return is shown under unrestricted, temporarily restricted, and permanently restricted net assets in the line items titled investment gain (included in operating gain for the unrestricted net assets) and change in net unrealized gains on investments (included in nonoperating gains (losses) for unrestricted net assets). The following is a summary of the key components of investment return for the year ended December 31:

	2013	2012
Investment gain by net asset class:		
Unrestricted	**$ 63,247,211**	$ 23,786,708
Temporarily restricted	**5,541,068**	2,644,501
Permanently restricted	**157,156**	38,620
Total investment gain	**$ 68,945,435**	$ 26,469,829
Components of investment gain:		
Interest and dividends	**$ 11,430,122**	$ 12,806,513
Income distributions from trusts	**876,043**	851,302
Investment fees	**(1,979,224)**	(2,147,350)
Net realized gains on investments recorded at fair value	**40,624,824**	3,863,452
Net realized (losses) gains on investments recorded at other than fair value	**(630,706)**	1,363,735
Change in net unrealized gains on investments recorded at other than fair value	**18,624,376**	9,732,177
Total investment gain	**$ 68,945,435**	$ 26,469,829

The unrestricted, temporarily restricted, and permanently restricted change in net unrealized gains on investments was $1.7 million and $30.1 million for the years ended December 31, 2013 and 2012, respectively, is solely comprised of the change in net unrealized gains on investments recorded at fair value.

5. Fair Value Measurements

The following table summarizes the recorded amount of assets and liabilities by class of asset/liability recorded at fair value on a recurring basis or NAV (which are marked not applicable (N/A) in the table below as they are not recorded at fair value on a recurring basis). The valuation level of the asset or liability as defined by ASC 820 is included for assets and liabilities carried at fair value:

	2013	2012	Level
Marketable securities and other investments at fair value:			
Marketable debt securities[A]	**$ 18,620,560**	$ 64,121,320	2
Assets limited as to use at fair value			
By Board of Trustees and donors:			
Mutual funds:			
PIMCO Total Return[B]	**$ 67,115,509**	$ 61,366,228	1
Fairholme[C]	**11,021,546**	–	1
Templeton Foreign Equity[D]	**–**	33,126,498	1
Templeton Global Equity Fund[E]	**33,477,370**	–	1
Artisan International[F]	**–**	33,630,997	1
Calamos[G]	**–**	41,940,457	1
PIMCO Real Return[H]	**–**	28,056,489	1
PIMCO All Asset Fund[I]	**35,059,847**	–	1
Capital World Growth and Income Fund[J]	**34,481,250**	–	1
Dodge and Cox Global Equity Fund[K]	**34,920,615**	–	1
Dreyfus Global Equity Fund[L]	**33,412,051**	–	1
Wellington Diversified Inflation Fund[M]	**35,012,545**	25,636,993	2
Other publicly traded mutual funds[N]	**29,143,354**	23,855,382	1
Total mutual funds	**313,644,087**	247,613,044	–
Separate accounts:			
PNC[O]	**26,292,424**	27,733,240	2
EPOCH All Cap Value[P]	**23,024,307**	–	1
Fairholme[Q]	**–**	22,894,496	1
Baron[R]	**23,209,741**	29,610,304	1
Horizon[S]	**10,250**	43,031,773	1
Other[T]	**1,556,358**	1,934,865	1
Total separate accounts	**74,093,080**	125,204,678	–
Total assets limited as to use by Board of Trustees and donors at fair value	**387,737,167**	372,817,722	–

5. Fair Value Measurements (continued)

	2013	2012	Level
By self-insurance trust agreements:			
Mutual funds:			
International equity funds(U)	**$ 3,842,386**	$ 3,229,870	1
Domestic equity funds(V)	**11,623,256**	9,549,551	1
Total mutual funds	**15,465,642**	12,779,421	
Separate accounts:			
Cash	**8,200,850**	2,231,348	1
Marketable debt securities(W)	**130,667,622**	109,604,968	2
Total separate accounts	**138,868,472**	111,836,316	
Total assets limited as to use by self-insurance trust agreements at fair value	**154,334,114**	124,615,737	
By bond indenture trust agreements:			
Marketable debt securities(X)	**103,809,161**	32,565,472	2
Total assets limited as to use by bond indenture trust agreements at fair value:	**103,809,161**	32,565,472	
Total assets limited as to use at fair value	**645,880,442**	529,998,931	
Assets limited as to use by Board of Trustees and donors at net asset value:			
Hedge funds(Y)	**152,354,455**	92,980,344	N/A
Real estate funds(Z)	**39,844,797**	45,886,377	N/A
Total assets limited as to use by Board of Trustees and donors at net asset value	**192,199,252**	138,866,721	
Less current portion of self-insurance trust and bond indenture trust	**(29,458,456)**	(27,996,556)	
Total assets limited as to use	**$ 808,621,238**	$ 640,869,096	
Other assets at fair value:			
Beneficial interest in trusts held by others *(Note 1)*	**$ 21,300,318**	$ 19,280,956	2
Liabilities:			
Interest rate swap (liability) asset *(Note 7)*	**$ (6,396,829)**	$ 3,567,943	2

5. Fair Value Measurements (continued)

(A) Investment grade, readily marketable corporate and U.S. agency domestic fixed income securities.

(B) Mutual funds whose objective is to seek maximum total return while preserving capital. Fund strives to exceed the Barclays Capital Aggregate index.

(C) Mutual fund invests in domestic equities with a variety of market capitalizations with a value orientation and strives to exceed the Russell 3000 Value index.

(D) Mutual fund focused on international equities to achieve long-term capital growth. Fund strives to exceed the MSCI EAFE index.

(E) Mutual fund invests in domestic and international equities to achieve long-term capital growth. Fund strives to exceed the MSCI World index.

(F) Mutual fund focused on international growth companies and strives to exceed the MSCI EAFE Growth index.

(G) Mutual fund focused on global companies that show growth and income potential and strives to exceed the MSCI World index.

(H) Mutual fund focused on inflation indexed bonds issued by the U.S. and non U.S. governments. Fund strives to exceed the Barclays Capital U.S. TIPS Index.

(I) Mutual fund invests in global bonds and stocks, real estate, and commodities. Fund strives to exceed the Barclays Capital U.S. Treasury Inflation Notes; 1–10 Yr.

(J) Mutual fund invests in domestic and international equities with a focus on companies paying regular dividends and strives to exceed the MSCI World Index.

(K) Mutual fund invests in equity securities issued by medium to large sized well-established global companies, including those domiciled in emerging markets, and strives to exceed the MSCI World Index.

(L) Concentrated mutual fund invests in domestic and international equities, and strives to exceed the MSCI World index.

(M) Commingled fund whose objective is to maximize real return by investing in a variety of securities that offer strong relative performance in a rising inflation environment. Fund seeks to exceed the DJ-AIG Commodity Total Return Index.

(N) Various mutual funds invested in money market, fixed-income, domestic equity, and international equity mutual funds. The equity mutual funds are diverse in investment strategies, including both value and growth and a variety of market capitalizations.

5. Fair Value Measurements (continued)

(O) Actively managed portfolio of readily marketable corporate and U.S. treasury fixed-income securities that strives to provide a return better than traditional cash or money market portfolios.

(P) Manager invests in domestic equities with a value orientation and high rates of free cash flow. Manager strives to exceed the Russell 3000 Value index.

(Q) Manager invests in domestic equities with a variety of market capitalizations with a value orientation and strives to exceed the Russell 3000 Value index.

(R) Manager invests in domestic equities with a variety of market capitalizations with a growth orientation and strives to exceed the Russell 3000 Growth index.

(S) Manager invests in publicly traded global equities and real return assets, choosing investments with a value orientation and risk-averse management style. Manager strives to exceed the MSCI World Value index.

(T) Conglomeration of smaller accounts whose components are not deemed material for individual breakout. Largest holding is money market fund.

(U) Mutual funds focused on international equities to achieve long-term capital growth and equities that provide a high total return from foreign companies in developing and emerging markets. Both funds strive to exceed the MSCI EAFE index.

(V) Mutual funds focused on domestic equities, including both value and growth, and a variety of market capitalizations.

(W) Externally managed portfolio holding investment grade U.S. agency and U.S. treasury fixed-income securities whose maximum maturity does not exceed five years.

(X) Externally managed portfolio holding readily marketable, investment grade corporate and U.S. agency fixed-income securities that strives to exceed the Bank of America/Merrill Lynch Treasury/Agency 1–5 year index.

(Y) The hedge funds are comprised of funds of funds that seek to provide equity like returns over a full market cycle with reduced volatility and low correlation. The managers are core multi-strategy hedge fund of funds with a long/short equity bias and seek to exceed the HFRI Fund of Funds Composite or Strategic index.

(Z) The real estate investments include an actively managed private REIT comprised of participating mortgages and wholly owned real estate investments. A smaller portion of the holdings include a commingled real estate fund, which includes the purchase of REITs, real estate properties, private equity funds, public debt securities and high-yield private debt.

5. Fair Value Measurements (continued)

Valuation

Marketable Debt Securities and Other Investments and Assets Limited as to Use

As previously stated, Level 1 securities are stated at unadjusted quoted market prices. The Corporation's various investment portfolios are held by a variety of business partners (managers) and these business partners use external pricing services in providing the valuation for all levels of securities. For Level 2 securities, this includes valuations based upon direct and indirect observable market inputs that may utilize the market, income, or cost approaches in determination of their fair value. The pricing services use a variety of pricing models and inputs based upon the type of security being valued. These inputs may include, but are not limited to: reported trades, similar security trade data, bid/ask spreads, institutional bids, benchmark yields, broker/dealer quotes, issuer spreads, yield to maturity, and corporate, industry, and economic events.

Beneficial Interests in Trusts Held by Others

The Corporation is an income beneficiary of irrevocable trust funds held by others. The Corporation has recorded the fair value of the ownership interest of the trusts based on its pro rata share of the underlying assets or income. Based on the observable inputs, typically marketable debt or equity securities held in the irrevocable trusts, the Corporation has determined its beneficial interests in outside trusts fall in Level 2 of the fair value hierarchy. This technique is consistent with the market approach.

Interest Rate Swap Asset (Liability)

The fair value is calculated based on a discounted cash flow model, taking into consideration the terms of each interest rate swap and the credit rating of the Corporation or counterparty, as applicable. The fair value is calculated based on a discounted cash flow model taking into consideration the terms of each interest rate swap and the credit rating of the Corporation or counterparty, as applicable. Based on the observable inputs, typically published interest rates and credit spreads, the Corporation has determined its interest rate swaps fall in Level 2 of the fair value hierarchy. The specific Corporation inputs are disclosed in Note 7. This technique is consistent with the income or discounted cash flow approach.

5. Fair Value Measurements (continued)

Other Fair Value Measurements

Certain financial instruments are not required to be marked to fair value on a recurring basis, and, therefore, the level of disclosure is noted as not applicable. The carrying value of long-term debt and pledges receivable is required to be disclosed at fair value under applicable accounting guidance. Management has determined the carrying amount of the Corporation's variable-rate bonds are representative of fair value as the interest rates associated with these bonds are set by market participants. The fair value of the outstanding fixed-rate bonds is determined by applying the yield of openly marketable bonds that have substantially the same characteristics as the tax-exempt bond obligations issued for the benefit of the Corporation (i.e., bond rating, call provisions, maturity, etc.) to outstanding amounts of the Corporation's bond issues. The determination of fair value of the Corporation's long-term debt is consistent with a Level 2 measurement under the fair value hierarchy. The carrying amount and fair value of long-term debt was $934.5 million and $940.3 million at December 31, 2013, and $752.1 million and $789.6 million at December 31, 2012, respectively. The fair value of the Corporation's pledges receivable, based on discounted cash flow analysis (Level 2 methodology in the fair value hierarchy based on observable inputs through formal pledge agreements and other similar documents) and adjusted for consideration of the donor's credit, is $34.3 million and $30.6 million at December 31, 2013 and 2012, respectively.

6. Net Patient Service Revenue

Revenue is recorded during the period the health care services are provided, based on estimated amounts due from the patients and third-party payors. Third-party payors include federal and state agencies (under the Medicare, Medicaid, and other programs), managed care health plans, commercial insurance companies, and employers. Patient service revenue is reported at estimated net realizable amounts for services rendered. The Corporation recognizes patient service revenue associated with patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, revenue is recognized on the basis of discounted rates in accordance with the Corporation's policy.

6. Net Patient Service Revenue (continued)

Net patient service revenue (net of contractual allowances and discounts), before provision for doubtful accounts recognized for the year ended December 31 from these major payor sources, is as follows:

	2013	% of Total	2012	% of Total
Medicare	**$ 472,610,461**	**28%**	$ 493,748,992	29%
Medicaid	**299,574,449**	**17**	221,364,786	13
Commercial	**834,004,044**	**48**	897,553,836	52
Self-pay and other	**127,301,305**	**7**	98,145,801	6
Net patient service revenue before provision for doubtful accounts	**1,733,490,259**	**100%**	1,710,813,415	100%
Provision for doubtful accounts	**89,650,246**		79,253,967	
Net patient service revenue	**$ 1,643,840,013**		$ 1,631,559,448	

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. The Corporation has established a corporate compliance program to assist in maintaining compliance with such laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines and penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that current recorded estimates will change by material amounts in the near term.

Medicare

Inpatient acute care services are reimbursed based on the patient's diagnosis related group (DRG). Outpatient services are reimbursed based on the services provided, using ambulatory payment classifications (APCs). Medicare payments include Disproportionate Share Hospital (DSH) and Medical Education (MedEd) add-ons. These add-ons are subject to annual retrospective review by the Medicare program. In the opinion of management, adequate provision has been made in the combined financial statements for any adjustments that may result from such reviews.

6. Net Patient Service Revenue (continued)

Medicaid

The Commonwealth of Kentucky has contracted with various managed care plans to provide coverage for Medicaid eligible residents. Under these plans, inpatient acute care services are reimbursed based on a prospective DRGs system similar to the Medicare acute reimbursement methodology or a fixed per diem. Outpatient services rendered to beneficiaries are reimbursed under a mixed methodology consisting of prospectively set rates (similar to the Medicare APC methodology), fee schedules, and cost reimbursement. Components of Medicaid reimbursement are subject to annual retrospective review by the Medicaid program. In the opinion of management, adequate provision has been made in the combined financial statements for any adjustments that may result from such reviews.

Commercial

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

The Commonwealth of Kentucky has established a provider tax program to provide funds for indigent care provided by Kentucky hospitals. Under the provider tax program, the Corporation's hospitals pay a fixed amount based on historical payments made to the program and are eligible for reimbursement for certain services provided to indigent patients. These amounts are shown net in the combined statement of operations and changes in net assets.

6. Net Patient Service Revenue (continued)

The Corporation recorded an increase in net patient service revenue before the provision for doubtful accounts of approximately \$7.0 million and \$20.2 million in 2013 and 2012, respectively, as a result of favorable changes in estimated settlements primarily with Medicare and Medicaid. In 2012, Medicare finalized and published certain figures which allowed for the settlement of the 2007 through 2010 Medicare cost reports. The settlement of those cost reports led to the increased change in estimates in 2012.

Policy for Assessing the Timing and Amount of Uncollectible Net Patient Service Revenue and Patient Accounts Receivable

Patient service revenue is reduced by the provision for doubtful accounts, and patient accounts receivable are reduced by an allowance for doubtful accounts. These amounts are based on management's assessment of historical and expected net collections for each major payor, considering business and economic conditions, trends in health care coverage, and other collection indicators. Management regularly reviews data about these major payor sources of net patient service revenue in evaluating the sufficiency of the allowance for doubtful accounts. On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable to pay for the services provided. Thus, the Corporation records a significant provision for doubtful accounts in the period services are provided related to self-pay patients, including both uninsured patients and patients with deductible and copayment balances due for which third-party coverage exists for a portion of their balance. For patient account receivables associated with patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for doubtful accounts, if necessary. Patient accounts receivable are written off after collection efforts have been followed in accordance with the Corporation's policies.

6. Net Patient Service Revenue (continued)

The allowance for doubtful accounts was approximately $94.2 million and $82.9 million at December 31, 2013 and 2012, respectively. These balances as a percent of patient accounts receivable, net of contractual adjustments, was approximately 33% and 29% (approximately 79% and 82% of self-pay patient accounts receivable) as of December 31, 2013 and 2012, respectively. The majority of the Corporation's allowance for doubtful accounts and the related provision for doubtful accounts relate to self-pay patient accounts receivable. The increase in the allowance for doubtful accounts as a percentage of patient receivables was the result of certain billing delays associated with the Corporation's implementation of a new clinical and revenue cycle information system. The decrease in the allowance for doubtful accounts as a percentage of self-pay patient accounts receivable is the result of continued improvements in the identification of Medicaid eligible patient accounts. The following is a summary of the Corporation's allowance for doubtful accounts activity for the year ended December 31:

	2013	2012
Balance at beginning of year	**$ 82,946,213**	$ 74,205,649
Additions charged to cost and expenses	**89,650,246**	79,253,967
Patient accounts written off, net of recoveries and other	**(78,375,028)**	(70,513,403)
Balance at end of year	**$ 94,221,431**	$ 82,946,213

7. Long-Term Debt

Long-term debt at December 31, consists of the following:

	2013	2012
Louisville/Jefferson County Metro Government Health System Revenue Bonds, Series 2013, dated September 26, 2013 (2013 Bonds)	**$ 279,580,000**	$ –
Louisville/Jefferson County Metro Government Health System Variable Rate Revenue Refunding Bonds, dated October 31, 2012 (2012A Bonds)	**17,950,000**	21,100,000
Louisville/Jefferson County Metro Government Health System Variable Rate Revenue Bonds, dated August, 2011 (2011 Bonds)	**135,920,000**	142,845,000
Louisville/Jefferson County Metro Government Health System Revenue Bonds, Series 2006 dated October 12, 2006 (2006 Bonds)	**301,080,000**	301,185,000
Kentucky Economic Development Finance Authority, Health System Revenue Bonds, Series 2000 dated October 1, 2000 (2000 Bonds)	**245,120,000**	364,095,000
	979,650,000	829,225,000
Less unamortized discounts	**(93,407,244)**	(97,472,888)
	886,242,756	731,752,112
Other debt and capital leases	**48,232,758**	20,353,840
	934,475,514	752,105,952
Less amounts due within one year	**(27,717,070)**	(28,143,000)
Total long term debt	**$ 906,758,444**	$ 723,962,952

The 2000 Bonds are secured by a mortgage lien on the principal hospital facilities and parking garages of Norton Hospitals, Inc. built before 2006. The net book value of these properties is $247.9 million and $256.9 million at December 31, 2013 and 2012, respectively. All bonds, with the exception of the 2013B Bond and 2011D Bonds are tax-exempt bond issues. All bonds are

7. Long-Term Debt (continued)

secured by a security interest in certain pledged collateral, including the operating revenue of the Obligated Group (Norton Healthcare, Inc. and Norton Hospitals, Inc.). Principal and interest related to the bonds are payable solely by the Obligated Group.

The Corporation has agreed to certain covenants, which, among other things, limit additional indebtedness and guarantees, and require the Corporation to maintain specific financial ratios. The Corporation is in compliance with these covenants as of December 31, 2013 and 2012.

2013 Bonds

In 2013, the Corporation entered into loan agreements with Louisville/Jefferson County Metro Government to issue $154.6 million of Series A uninsured fixed-rate revenue bonds (2013A Bonds), $75 million of Series B uninsured taxable variable-rate bonds (2013B Bonds), and $50.0 million of Series C uninsured variable-rate revenue bonds (2013C Bonds). Proceeds from 2013A Bonds and 2013C Bonds were used to pay or reimburse the Corporation for the cost of acquiring, constructing, renovating, and equipping areas related to patient care and to pay certain expense in connection with the issuance of the bonds. Proceeds from 2013B Bonds were used to refund all of Series 2000C Bonds. As a result of the refunding, the Corporation reported a loss on extinguishment of debt of $3.8 million.

At December 31, 2013, 2013A Bonds consists of fixed-rate term bonds, maturing on October 1, 2024, with an interest rate of 4.5%; fixed-rate term bonds maturing on October 1, 2025, with an interest rate of 4.5%; fixed-rate term bonds maturing on October 1, 2026 with an interest rate of 5.25%; fixed-rate term bonds maturing on October 1, 2027, with an interest rate of 5.0%; fixed-rate term bonds maturing on October 1, 2033, with an interest rate of 5.5%; fixed-rate term bonds maturing on October 1, 2038, with an interest rate of 5.75%; and fixed-rate term bonds maturing on October 1, 2042, with an interest rate of 5.75%. 2013A Bonds have annual sinking fund deposits of various amounts annually on October 1 beginning in 2028. Interest is payable on April 1 and October 1. Beginning October 1, 2023, 2013A Bonds maturing on or after October 1, 2023, are subject to optional redemption prior to maturity for 100% of par.

2013B Bonds are a direct placement issue and held entirely by Branch Banking and Trust Company, and the final maturity is in 2023. 2013B Bonds are subject to optional redemption at any time prior to maturity by the Corporation at par. At December 31, 2013, the applicable cost of the debt for 2013B Bonds was approximately 1.0%.

7. Long-Term Debt (continued)

2013C Bonds are secured by an irrevocable direct-pay letter of credit issued by PNC Bank. While bearing interest at a weekly interest rate, the 2013C Bonds are subject to optional redemption prior to maturity at the direction of the Corporation at a redemption price of 100% of the principal amount, plus accrued interest. The 2013C Bonds have one annual sinking fund deposit of $17.6 million on October 1, 2042, with final maturity in 2043. At December 31, 2013, the applicable cost of the debt for 2013C Bonds was less than 1.0%.

2012 Bonds

In 2012, the Corporation entered into a loan agreement with Louisville/Jefferson County Metro Government to issue $21.1 million of Series A uninsured fixed-rate revenue bonds (2012A Bonds). Proceeds from 2012A Bonds were used to refund the remainder of the 1997 Bonds. As a result of the refunding, the Corporation reported a loss on extinguishment of debt of $0.5 million during the year ended December 31, 2012. The 2012A Bonds are a direct placement issue, whose final maturity occurs in 2021, and the approximate cost of debt at December 31, 2013 and 2012, was 2.0%. The 2012A Bonds are subject to optional redemption by the Corporation at any time subject to "make whole" provisions.

2011 Bonds

In 2011, the Corporation entered into loan agreements with Louisville/Jefferson County Metro Government to issue $35.0 million of Series A uninsured variable-rate revenue bonds (2011A Bonds), $40.0 million of Series B uninsured variable-rate revenue bonds (2011B Bonds), $23.8 million of Series C uninsured variable-rate bonds (2011C Bonds), and $53.7 million of Series D uninsured taxable variable-rate bonds (2011D Bonds). Proceeds from 2011A and 2011B Bonds were used to pay or reimburse the Corporation for the cost of acquiring, constructing, renovating, and equipping areas related to patient care and to pay certain expense in connection with the issuance of the bonds. Proceeds from 2011C Bonds were used to refund a portion of 1997 Bonds, and proceeds from 2011D Bonds were used to refund all of 2000A Bonds.

2011A and B Bonds are secured by an irrevocable direct-pay letter of credit issued by JPMorgan Chase Bank and their final maturity occurs in 2039. While bearing interest at weekly or daily interest rates, the 2011A and B Bonds are subject to optional redemption prior to maturity at the direction of the Corporation at a redemption price of 100% of the principal amount, plus accrued interest. The 2011A and B Bonds have annual sinking fund deposits of various amounts

7. Long-Term Debt (continued)

annually, beginning October 1, 2022, through their maturity. At December 31, 2013 and 2012, the applicable cost of the debt for 2011A and B Bonds was less than 1.0%. 2011C and D Bonds are a direct placement issue and are held entirely by PNC Bank, and their final maturity occurs in 2021. At December 31, 2013 and 2012, the applicable cost of debt was 1.3% and 1.4% for 2011C and D Bonds, respectively. 2011C and D Bonds are subject to optional redemption at any time subject to "make whole" provisions.

2006 Bonds

In 2006, the Corporation entered into a loan agreement with the Louisville/Jefferson County Metro Government to issue $302.7 million uninsured revenue bonds. Proceeds from the 2006 Bonds and certain other available monies were used to legally defease a portion of certain outstanding 2000 Bonds (Series A and Series C) issued on behalf of the Corporation through deposits to irrevocable trusts pursuant to escrow agreements, to finance the Corporation for the costs of constructing and equipping a new hospital facility, to finance or reimburse the Corporation for the costs of renovation and expansion of various patient care areas and the acquisition of equipment, and to pay certain expenses in connection with the issuance of the 2006 Bonds. The escrowed funds, together with the interest earnings thereon, were used to pay all subsequent installments of the defeased 2000 Bonds.

At December 31, 2013 and 2012, the 2006 Bonds consist of fixed-rate term bonds, maturing on October 1, 2026, with an interest rate of 5.00%; fixed term bonds maturing on October 1, 2030, with an interest rate of 5.00%; and fixed-rate term bonds maturing on October 1, 2036, with an interest rate of 5.25%. The 2006 Bonds have annual sinking fund deposits of various amounts annually on October 1 through 2036. Interest is payable on April 1 and October 1. Beginning October 1, 2016, the 2006 Bonds maturing on or after October 1, 2017, are subject to optional redemption prior to maturity for 100% of par.

2000 Bonds

In 2000, the Corporation entered into loan agreements with Kentucky Economic Development Finance Authority to issue $148.3 million of Series A uninsured revenue bonds, $119.2 million of Series B, and $180.5 million of Series C insured revenue bonds, for a total of $448.0 million. Proceeds from the 2000 Bonds and certain other available monies were used to legally defease the 1998 Bonds and a portion of certain outstanding 1997 and 1992 Bonds issued on behalf of the Corporation and its Affiliates through deposits to irrevocable trusts pursuant to escrow

7. Long-Term Debt (continued)

agreements, and to pay certain expenses incurred in connection with the issuance of the 2000 Bonds as well as fund a debt service reserve account. As of December 31, 2013 and 2012, the 1992 Bonds were no longer outstanding. The remaining escrowed funds, together with the interest earnings thereon, will be used to pay all subsequent installments of the defeased 1998 and 1997 Bonds.

At December 31, 2013 and 2012, the remaining 2000 Bonds consist of 2000B capital appreciation bonds with interest rates ranging from 5.63% to 6.23%, maturing through October 1, 2028. Payment of principal and interest on 2000B Bonds is guaranteed by National Public Finance Guarantee Corporation (formerly MBIA– Insurance Corporation). The 2000C Bonds were fully refunded as of December 31, 2013.

Interest on the 2000B Bonds will be compounded from the dates of delivery to their respective maturities, and will be payable only at maturity, or upon redemption prior to maturity or acceleration. 2000B Bonds mature in various amounts on October 1 through 2028. 2000B Bonds are not subject to optional redemption prior to maturity.

Required debt service on all outstanding bonds is as follows:

	Principal	Interest	Total
2014	$ 18,085,471	$ 40,551,776	$ 58,637,247
2015	19,184,515	40,283,261	59,467,776
2016	19,629,043	40,056,957	59,686,000
2017	20,713,996	39,730,127	60,444,123
2018	21,041,636	39,340,781	60,382,417
Thereafter	701,439,604	604,571,060	1,306,010,664
	$ 800,094,265	**$ 804,533,962**	**$ 1,604,628,227**

Included as part of the interest payments above is $6.2 million of 2000B Bonds interest payable in 2014, which is paid at the maturity of the Series 2000B Bonds. For 2014 through final maturity of 2000B Bonds, $179.6 million is included in interest payments, which is paid at the various maturities of the 2000B Bonds. For the variable- rate bond series (All Series of 2011 Bonds, 2013B, and 2013C Bonds), the future periods estimate interest using terms of the master trust indenture and is calculated using an average of Securities Industry and Financial Markets Association (SIFMA), for tax exempt issues, or London Interbank Offered Rate (LIBOR), the

7. Long-Term Debt (continued)

average interest rate charged when banks in the London interbank market borrow unsecured funds from each other, for taxable issues, over the last 20 years plus 1% to estimate liquidity, credit support, and remarketing fees. Thus utilizing, for purpose of this presentation, 3.26% for tax-exempt bond issues and 4.33% for taxable bond issues.

The Corporation paid interest of $31.6 million and $28.6 million during 2013 and 2012, respectively. The Corporation capitalized interest costs of $1.7 million and $1.1 million during 2013 and 2012, respectively.

The remaining long-term debt consists primarily of a note payable and capital leases. Payments on these arrangements are as follows:

	Principal	Interest	Total
2014	$ 3,750,358	$ 2,452,157	$ 6,202,515
2015	3,954,848	2,303,046	6,257,894
2016	4,189,970	2,142,487	6,332,457
2017	3,335,809	1,969,735	5,305,544
2018	3,593,668	1,783,935	5,377,603
Thereafter	29,408,105	6,357,524	35,765,629
	$ 48,232,758	**$ 17,008,884**	**$ 65,241,642**

In December 2013, the Corporation entered into a revolving credit agreement with Commerce Bank. The revolving credit agreement consists of a $30 million credit line with a termination date of November 22, 2016. Borrowings under the credit facility are at LIBOR plus a margin of 75 basis points.

Borrowings are subject to various covenants consistent with other master obligations. As of December 31, 2013, no amounts were outstanding under the revolving credit agreement. As of December 31, 2013, the corporation was in compliance with the revolving credit agreement covenants.

7. Long-Term Debt (continued)

Interest Rate Swaps

The Corporation uses derivative instruments to manage its cost of capital by entering interest rate swaps which generate cash flow meant to reduce interest expense. The Corporation pays a rate based upon the SIFMA Municipal Swap Index, an index of seven-day, high-grade, tax-exempt variable-rate demand obligations. In return, the Corporation receives a fixed-rate based upon LIBOR.

At December 31, the Corporation holds the following interest rate swaps:

Effective Date	Notional Amount	Maturity Date	Receive	Pay	2013	2012
2/21/2001	$ 100,000,000	10/1/2028	1.4925% of one-month LIBOR	2 times SIFMA	$ (258,472)	$ 1,418,691
10/1/2004	$ 100,000,000	10/1/2028	62.6% of one-month LIBOR plus 0.57%	SIFMA	(4,277,054)	(3,752,531)
11/3/2006	$ 140,000,000	11/3/2031	61.7% of one-month LIBOR plus 0.577%	SIFMA	(6,073,975)	(1,078,110)
11/3/2008	$ 200,000,000	11/3/2026	61.7% of ten-year LIBOR minus 0.016%	SIFMA	4,212,672	6,979,893
					$ (6,396,829)	$ 3,567,943

All of the Corporation's interest rate swaps are with Citigroup and, consistent with industry practice, require posting of collateral should either party's cumulative mark-to-market liability exceed certain thresholds based upon the credit rating of the counterparty. At December 31, 2013 and 2012, based upon the agreements with Citigroup, the Corporation's cumulative mark to market at contract value was a liability of $7.8 million and an asset of $1.9 million, respectively. Based upon the Corporation's A- credit rating, collateral must be posted for liabilities in excess of $25 million. At December 31, 2013 and 2012, the Corporation had no collateral posted, and was not required to post any collateral. Should the Corporation's credit rating fall below BBB, Citigroup would have the option of terminating some or all of the interest rate swaps at the market value. All of the Corporation's interest rate swaps outstanding at December 31, 2013 and 2012, were issued pursuant to a single International Swaps and Derivatives Association, Inc. (ISDA) agreement with a single counterparty. Therefore, all interest rate swaps are viewed under a master netting arrangement to determine the aggregate amount of collateral to be posted

7. Long-Term Debt (continued)

or received by the Corporation. Should the Corporation hold all interest rate swaps to maturity, as it intends, no cash settlement will be necessary, and at maturity, any posted interest rate swap collateral will be returned.

None of these interest rate swaps has been designated as a hedge for accounting purposes; therefore, the change in fair value for these interest rate swaps appears in the combined statements of operations and changes in net assets under nonoperating gains (losses) in the line titled change in interest rate swap value. The cash flow impact of the interest rate agreements appears in the line interest rate swap benefit, net. When the fair value is a liability for the Corporation, it is shown in the combined balance sheets under other noncurrent liabilities in the line interest rate swap liability; when it is an asset, it appears under other assets in the line interest rate swap asset. The fair value is calculated based on a discounted cash flow model taking into consideration the terms of each interest rate swap and the credit rating of the Corporation or counterparty, as applicable.

The cash flow for these interest rate swaps is settled semiannually on April 1 and October 1. In the interim periods, a receivable or payable is recorded; currently the cash flows are in a receivable position, and the receivable is included in the line miscellaneous receivables under current assets in the combined balance sheets.

	Miscellaneous Receivable	**Interest Rate Swap (Liability) Asset**	**Balance Sheet, net**
January 1, 2012	$ 1,000,223	$ (8,253,028)	$ (7,252,805)
Interest rate swap benefit, net	3,411,208	–	3,411,208
Swap cash settlement received	(3,646,571)	–	(3,646,571)
Change in interest rate swap value	–	11,820,971	11,820,971
December 31, 2012	764,860	3,567,943	4,332,803
Interest rate swap benefit, net	**4,415,636**	–	**4,415,636**
Swap cash settlement received	**(3,940,056)**	–	**(3,940,056)**
Change in interest rate swap value	–	**(9,964,772)**	**(9,964,772)**
December 31, 2013	**$ 1,240,440**	**$ (6,396,829)**	**$ (5,156,389)**

8. Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets at December 31 are available for the following purposes:

	2013	2012
Temporarily restricted:		
Health care services	**$ 73,020,123**	$ 65,246,995
Permanently restricted:		
Investments to be held in perpetuity, the income from which is expendable to support health care services	**$ 18,269,402**	$ 16,190,890
Beneficial interest in trusts held by others, the income from which is expendable to support health care services	**20,766,216**	18,373,967
Total permanently restricted	**$ 39,035,618**	$ 34,564,857

9. Endowment Funds

The Corporation's endowment consists of 11 individual donor-restricted endowment funds (9 at The Children's Hospital Foundation, Inc. and 2 at Norton Healthcare Foundation, Inc., collectively referred to as the Foundations) established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted in the state of Kentucky on March 25, 2010. The Foundations have interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundations classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) market appreciation and/or investment income that is permanently restricted by the donor in the gift agreement. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundations.

9. Endowment Funds (continued)

Investment Objectives and Policy

The Foundations follow the Investment Policy objectives of the Corporation. The long-term objective of the policy is to generate a return, which is sufficient to meet its current and expected future financial requirements, as defined by the Corporation's long-range financial plan. To accomplish this objective, the Corporation seeks to earn the greatest total return possible consistent with its general risk tolerance, the securities noted as eligible for purchase and the asset allocation strategies included in the Investment Policy. The asset allocation includes investments in cash, fixed income, equities, and alternative investments.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundations have adopted a 5% spending policy, which is based upon a three-year rolling average of the fair market value of the endowment fund. The current-year spending policy is calculated using year-end December 31 market values.

In addition to the 5% spending policy, the Foundations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundations and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundations
7. The investment policies of the Corporation

9. Endowment Funds (continued)

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original fair market value of the gift. In accordance with applicable accounting guidance, deficiencies of this nature are reported in unrestricted net assets. The Foundations will not appropriate funds from the endowment for spending until the current value of the fund exceeds the fair value of the original gift, unless an appropriation is deemed prudent based upon the factors listed above.

In 2013, the Corporation had the following endowment-related activities:

	Changes in Endowment Net Assets for the Year Ended December 31, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ –	$ 1,572,427	$ 16,190,890	$ 17,763,317
Investment return:				
Investment income	–	258,199	286	258,485
Net appreciation (realized and unrealized)	–	1,570,827	154,977	1,725,804
Total investment gain		1,829,026	155,263	1,984,289
Contributions less uncollectible pledges	–	–	1,423,249	1,423,249
Transfer to establish endowment	–	–	500,000	500,000
Appropriation of endowment assets for expenditure	–	(583,136)	–	(583,136)
Endowment net assets, end of year	$ –	$ 2,818,317	$ 18,269,402	$ 21,087,719

9. Endowment Funds (continued)

In 2012, the Corporation had the following endowment-related activities:

	Changes in Endowment Net Assets for the Year Ended December 31, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net (deficit) assets, beginning of year	$ (78,420)	$ 310,027	$ 16,156,732	$ 16,388,339
Investment return:				
Investment income	3,554	96,640	187	100,381
Net appreciation (realized and unrealized)	74,866	1,251,771	113,833	1,440,470
Total investment gain	78,420	1,348,411	114,020	1,540,851
Contributions less uncollectible pledges	–		(79,862)	(79,862)
Appropriation of endowment assets for expenditure	–	(86,011)	–	(86,011)
Endowment net assets, end of year	$ –	$ 1,572,427	$ 16,190,890	$ 17,763,317

10. Employee Benefit Plans

Defined Benefit Plan

Substantially all employees of the Corporation are covered by a noncontributory defined benefit pension plan (the Plan). Benefits are generally based upon years of service and an employee's annual compensation during their years of service. The Corporation annually funds an amount not less than the minimum required under The Employee Retirement Income Security Act of 1974 (ERISA). The Plan was frozen effective January 1, 2010, and, as a result, no service cost was incurred in 2013 or 2012.

10. Employee Benefit Plans (continued)

A summary of the components of net periodic benefit cost (gain), which is included in labor and benefits in the combined statements of operations and changes in net assets, for the Plan for the years ended December 31 is as follows:

	2013	2012
Interest cost	**$ 7,472,886**	$ 8,485,006
Expected return on plan assets	**(8,287,620)**	(9,654,731)
Settlement cost	**1,746,556**	–
Net periodic benefit cost (gain)	**$ 931,822**	$ (1,169,725)

Included in unrestricted net assets are $21.5 million and $12.1 million of unrecognized actuarial losses at December 31, 2013 and 2012, respectively, that have not been recognized in net periodic benefit cost (gain).

Included as a component of net periodic benefit cost (gain) for 2013 is a settlement cost of $1.7 million. A settlement cost is required under the applicable pension accounting guidance when the amount of the lump sum benefit payments made during the fiscal year exceeds the service cost plus interest cost components of net periodic pension cost (gain). During 2013, the Plan paid $17.5 million in lump sum benefit payments. This exceeded the threshold of $7.5 million. The settlement cost is determined by taking the ratio of the lump sum benefit payments made to the projected benefit obligation before settlement, multiplied by the unrecognized loss in the Plan.

Changes in pension plan assets and obligations recognized in unrestricted net assets for the years ended December 31, 2013 and 2012, were comprised solely of actuarial gains of $9.4 million and $6.4 million, respectively.

10. Employee Benefit Plans (continued)

A summary of the components of the changes in projected benefit obligation and fair value of plan assets for the Plan as of December 31 is as follows:

	2013	2012
Change in projected benefit obligation:		
Benefit obligation at beginning of year	**$ 244,184,960**	$ 227,788,267
Interest cost	**7,472,886**	8,485,006
Actuarial (gain) loss	**(16,566,897)**	17,313,231
Benefit payments:		
Lump sum	**(17,496,255)**	(7,777,918)
Annuity	**(1,688,798)**	(1,623,626)
Projected benefit obligation at the end of year	**$ 215,905,896**	$ 244,184,960
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 269,253,680**	$ 257,974,718
Actual return on plan assets:	**(19,484,120)**	20,680,506
Benefit payments:		
Lump sum	**(17,496,255)**	(7,777,918)
Annuity	**(1,688,798)**	(1,623,626)
Fair value of plan assets at end of year	**230,584,507**	269,253,680
Funded status and net pension asset	**$ 14,678,611**	$ 25,068,720

Since the Plan is frozen there is no difference between the projected benefit obligation and the accumulated benefit obligation at December 31, 2013 or 2012.

Assumptions

Weighted-average assumptions used to determine the projected benefit obligation at December 31 are as follows:

	2013	2012
Discount rate	**4.125%**	3.250%

10. Employee Benefit Plans (continued)

Weighted-average assumptions used to determine net periodic benefit cost (gain) at December 31 is as follows:

	2013	2012
Discount rate	**3.250%**	3.875%
Expected long-term rate of return on assets	**3.250%**	3.875%

The rate of return assumption was developed by applying an expected long-term rate of return, based primarily on long-term historical returns by asset type and applying the weighted-average percent of total plan assets.

Plan Assets

100% of the Corporation's Plan weighted-average allocations and target asset allocations at December 31, 2013 and 2012, was marketable debt securities (through mutual funds, common collective trusts, and separate accounts whose investment strategies are fixed-income based).

Fair Value Measurements

Similar to the Corporations' assets limited as to use (Notes 1 and 5), Plan assets impacting the funded status of the Plan are accounted for using fair value measurements.

10. Employee Benefit Plans (continued)

The following table presents the financial instruments carried at fair value as of December 31, by type of investments and the fair value levels defined in Note 1:

	2013	2012	Level
Mutual funds:			
JP Morgan Core Bond Select[A]	**$ 6,140,744**	$ 12,611,568	1
PIMCO Long Duration Total Return[B]	**35,487,681**	79,891,207	1
Vanguard Long-Term Bond Index[C]	**35,433,981**	81,288,628	1
Vanguard Total Bond Market Index[D]	**7,384,738**	12,551,372	1
Vanguard Short-Term Institutional[E]	**5,358,784**	–	1
Total mutual funds	**89,805,928**	186,342,775	
Common collective trust:			
Diversified Long Bond[F]	**35,719,551**	82,153,767	2
Separate accounts:			
Standish Fixed Income[G]	**103,458,436**	–	2
Other:			
Edge Asset Management[H]	**1,387,531**	171,595	2
Money Market[I]	**213,061**	585,543	2
	$ 230,584,507	$ 269,253,680	

(A) Actively managed fund is designed to maximize total return by investing in a portfolio of investment grade intermediate and long-term debt securities. The fund invests at least 80% of net assets in bonds. The objective of the fund is to maximize total return.

(B) Actively managed fund invests in a diversified portfolio of fixed-income instruments of varying maturities, which may be represented by forwards or derivatives such as options, futures contracts, or swap agreements. The portfolio seeks to maximize total return.

(C) Passively managed portfolio seeks to track the performance of the Barclays Capital Aggregate Long Government/Credit Long Index. The portfolio has diversified exposure to the long-term, investment-grade U.S. bond market. The objective of the portfolio is to provide high current income with high credit quality.

10. Employee Benefit Plans (continued)

(D) Passively managed portfolio seeks to track the performance of the Barclays Capital Aggregate Long Government/Credit Long Index. It holds a broadly diversified collection of securities that approximates the full index in terms of risk factors and other characteristics. The fund invests at least 80% of assets in bonds held in the index. The fund seeks to provide moderate current income with high credit quality.

(E) Actively managed fund invested in U.S. investment-grade bonds with maturities from one to five years. The fund invests 30% in corporate bonds and 70% in U.S. government bonds and strives to exceed the Barclays Gov/Credit 1–5 year index.

(F) Actively managed fund seeking to maximize total return through investment in a diversified portfolio of long duration fixed-income securities, including long duration U.S. Government, agency and corporate securities, and, to a lesser extent, asset-backed and mortgage-backed holdings. The fund seeks to exceed the Barclay's Capital Long Government Credit Index.

(F) Common/collective trust invests primarily in high-quality debt securities with short and intermediate maturities. Securities can include corporate bonds and notes, mortgage-backed and asset-backed securities, U.S. Treasury and agency obligations, and securities of foreign issuers. The portfolio seeks to provide a high, risk-adjusted return while preserving capital.

(G) Separate account invested in fixed-income securities, including U.S. Treasuries, U.S. Agencies, high-yield bonds, investment-grade corporate bonds, and futures contracts. The account seeks to perform at the three-year Treasury Yield plus 50 basis points.

(H) Actively managed fund of corporate and municipal fixed income securities whose return is meant to mirror the Barclay's Credit 1–3 Years Index.

(I) Actively managed fund of corporate and municipal fixed-income securities whose return is meant to mirror the Barclay's Treasury Bellweathers three Month Index.

10. Employee Benefit Plans (continued)

Valuation

As previously stated, Level 1 securities are stated at unadjusted quoted market prices. The business advisor for the assets of the Plan utilizes external pricing services in providing the valuation for all levels of securities. Level 2 securities include valuations based upon direct and indirect observable market inputs that may utilize the market, income, or cost approaches in determination of their fair value. The pricing service uses a variety of pricing models and inputs based upon the type of security being valued. These inputs may include, but are not limited to, reported trades, similar security trade data, bid/ask spreads, institutional bids, benchmark yields, broker/dealer quotes, issuer spreads, yield to maturity, and corporate, industry, and economic events.

The valuation of common collective trust funds is based on NAV. Management has determined that the NAV is an appropriate estimate of the fair value of this investment at December 31, 2013 and 2012, based on the fact that the common collective trust is audited and accounted for at fair value by the administrators of the common collective trust. The Corporation has the ability to redeem its investment in the common collective trust at the NAV with no significant restrictions on the redemption at the combined balance sheet date, and, therefore, the Corporation has categorized the common collective trust as a Level 2 measurement in the fair value hierarchy.

Cash Flows

The Corporation does not expect to contribute to the Plan in 2014. The following table sets forth the benefit payout projections for the next ten years:

Year:	
2014	$ 26,120,000
2015	15,710,000
2016	15,600,000
2017	15,520,000
2018	17,030,000
2019–2022	72,040,000

10. Employee Benefit Plans (continued)

The Plan has been named as a defendant in a class action suit brought on behalf of certain former employees who elected to take early retirement, alleging that lump sum payments made by the Plan upon their retirement were incorrectly calculated. Although the Corporation is not a party to the suit and a judgment entered in favor of the plaintiffs, if any, would be paid from assets of the Plan, in the event that such a judgment causes the Plan to be underfunded, the Corporation would be required to make quarterly minimum contributions over a period of 10 to 17 years to restore the funding of the Plan. As of December 31, 2013, the Plan was over funded. Both the plaintiff class and the Plan have filed motions for summary judgment, and the court has ruled in favor of the plaintiff class on certain issues and in favor of the defendant Plan on other issues. The Plan's counsel believes it has meritorious defenses and will continue to defend the claims and judgments vigorously through appeal. As a result, any liability is not known at this time and a range cannot be estimated. The Corporation does not believe this will have a material impact on the combined financial statements.

Defined Contribution Plans

403(b)/401(k) Plan

In addition to the Plan, the Corporation also has a defined contribution 403(b)/401(k) retirement plans (Defined Contribution Plans). The Defined Contribution Plans are available to all employees that work more than 1000 hours in a year. The Corporation matches contributions to participants employed on the last day of the fiscal year. Under the terms of these Defined Contribution Plans, for the 2013 and 2012 plan years, the Corporation provides for a 100% matching contribution of the participant's first 4% of plan deferrals for those participants employed on December 31.

10. Employee Benefit Plans (continued)

While the Plan was frozen effective January 1, 2010, additional discretionary employer contributions to the Defined Contribution Plans went into effect on the same date. For fiscal years 2013 and 2012, these contributions were based on years of services according to the following grid:

Years of Service	Employer Contribution
0–4	1%
5–9	2
10–14	3
15–19	4
20–24	5
25 +	6

Total expense related to the Defined Contribution Plans was $36.3 million and $34.1 million for the years ended December 31, 2013 and 2012, respectively, and is included in labor and benefits in the combined statements of operations and changes in net assets.

11. Functional Expenses

The Corporation, through certain affiliates (principally the hospitals), provides general health care services to residents within its geographic location. Approximately 86% of the Corporation's expenses relate to health care services for the years ended December 31, 2013 and 2012, and 14% of the Corporation's expenses relate to general and administrative expenses for the years ended December 31, 2013 and 2012.

12. Affiliation Agreement

In accordance with the second restated Affiliation Agreement between the Corporation and Kosair Charities Committee, Inc. (Kosair), Kosair agreed to contribute a total of $117.0 million to Kosair Children's Hospital from 2007 through 2026. Based on the terms of the agreements, this does not meet the accounting definition of a pledge receivable and will be recorded in the year cash is received. The Corporation and Kosair also entered into a Special Project Agreement and Additional Projects Funding Agreement where Kosair agreed to contribute $1.0 million

12. Affiliation Agreement (continued)

annually to Kosair Children's Hospital, beginning in 2010 and continuing through 2026, when, in the final year of these agreements, they will contribute $1.5 million. Total contributions from Kosair were approximately $1.0 million and $5.0 million for the years ended December 31, 2013 and 2012, respectively. These contributions are reported as donations and contributions in the combined statement of operations.

In August 2013, Kosair sent notice to the Corporation asserting that the Corporation was in breach of these agreements. Management believes that the Corporation is not in breach of these agreements. Kosair and the Corporation have agreed to go to mediation to resolve this issue.

13. Commitments and Contingency

The Corporation is in the process of improving and expanding its facilities. Commitments related to renovation of existing facilities or construction of new facilities totaled $58.9 million and $18.3 million at December 31, 2013 and 2012, respectively. This will be funded through cash flows from operations.

Kosair Children's Hospital was constructed on land leased to the Corporation pursuant to a 1983 long-term ground lease with the Commonwealth of Kentucky (KCH Lease). The KCH Lease has a 99-year term and grants the Corporation an option to extend the term for an additional 50 years on the same terms. The Corporation has prepaid the rent for the full initial 99-year lease term. The KCH Lease required the Corporation to construct a pediatric facility on the site. The KCH Lease provides that, if the Corporation defaults in its performance and observance of terms and conditions of the KCH Lease, the Commonwealth may give the Corporation notice of such default, and, if such default is not cured, or steps taken to cure such default if it is of a nature that an immediate cure cannot be effected, within 30 days of such notice, the Commonwealth may terminate the KCH Lease and take possession of the leased property.

On August 27, 2013, the Corporation received notice on behalf of the University of Louisville (UofL) asserting that the Corporation was in default in the performance of certain obligations included in the KCH Lease and demanding that the Corporation cure the asserted defaults within 30 days of receipt of notice. The Corporation responded in defense of the notice, as it does not believe the Corporation is in default under the KCH Lease and there is no basis for termination. Subsequently, in response to their notice of default, the Corporation filed suit against UofL, and UofL filed a counter claim. This litigation is stayed at the current time pending the parties efforts to mediate their dispute.

13. Commitments and Contingency (continued)

The Corporation is subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the Corporation's combined financial position.

14. Concentration of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31 is as follows:

	2013	2012
Medicare	**12%**	12%
Medicaid	**16**	14
Blue Cross plans	**14**	15
Other third-party payors	**23**	27
Self-pay	**35**	32
	100%	100%

15. Electronic Medical Records Implementation

During 2012, the Corporation began the implementation of an electronic medical record system (EMR). The system is an integrated EMR system that allows seamless sharing of patient information among caregivers, patients, and families. All of the Corporation's physician practices, immediate care centers, and hospitals will be connected and able to view electronic medical records using one system, rather than a variety of disparate systems. Due to the significant non-capital implementation costs, which include: labor and benefits, training, supplies, implementation support, and other; the Corporation has broken out these operating costs in the combined statement of operations and changes in net assets into a separate line titled electronic medical records implementation. These costs totaled $37.6 million and $42.1 million in 2013 and 2012, respectively. During 2012, implementation encompassed virtually all physician practice locations, 12 immediate care centers, and two hospitals. During 2013, the remaining three hospitals were implemented. As the implementation was concluded by the end of 2013, ongoing costs of maintaining the system will be incurred and will be recorded in the operating expenses by their natural class.

16. Premier Initial Public Offering

The Corporation has participated and owned equity in the Premier Limited Partnership (Premier), which serves as a group purchasing organization for several years. This participation provides purchasing contract rates and rebates the corporation would not be able to obtain on its own. In addition, Premier has paid dividends of $3.3 million and $2.6 million in 2013 and 2012, respectively. These dividends have been recorded in the line joint venture income on the combined statements of operations and changes in net assets. During 2013, Premier restructured from a privately held company to a public company in an initial public offering (IPO), and several financial transactions have occurred with those holding equity in Premier before the IPO, including the Corporation. As a result, the Corporation received a cash payment of $14.3 million and non-marketable ownership of the new public company. As a result of the unique nature of these transactions, they have been broken out in the combined statements of operations and changes in net assets into a separate line titled Premier initial public offering proceeds. The new structure of Premier also changes the arrangement under which future dividends will be paid, consistent with prior handling, the Corporation will continue to record any future dividends in joint venture income.

17. Subsequent Events

Companies that are considered public (e.g., have publicly traded debt) are required to disclose significant changes occurring in the fourth quarter that may impact previously reported quarterly financial statements. Management has determined there are no transactions that require disclosure for the quarter ended December 31, 2013.

The Corporation has evaluated and disclosed any subsequent events through April 7, 2014, which is the date the combined financial statements were issued. No recognized or non-recognized subsequent events were identified for recognition or disclosure in the combined financial statements.

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Report of Independent Auditors

The Board of Trustees
Norton Healthcare, Inc. and Affiliates

We have audited the accompanying schedule of the debt service coverage ratio calculation of Norton Healthcare, Inc. and Affiliates as of December 31, 2013, and for the year then ended and the related notes.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the schedule of the debt service coverage ratio calculation on the basis of the financial reporting provisions of Section 5.7 of Article V of the Amended and Restated Master Trust Indenture dated as of September 15, 1997, as supplemented by Supplemental Indentures Nos. 1 and 2, dated as of September 15, 1997; as supplemented by Supplemental Indenture No. 3, dated as of October 1, 1998, by and between Norton Healthcare, Inc. and Bank One, Kentucky, NA; as supplemented by Supplemental Indenture No. 4 dated as of September 1, 2000; as supplemented by Supplemental Indenture No. 5, dated as of January 4, 2001; as supplemented by Supplemental Indenture No. 6, dated as of July 1, 2003, by and between Norton Healthcare, Inc., Norton Hospitals, Inc. and Bank One, Kentucky, NA; as supplemented by Supplemental Indenture No. 7, dated as of March 17, 2004; as supplemented by Supplemental Indenture No. 8, dated as of September 1, 2004; as supplemented by Supplemental Indenture No. 9, dated as of October 1, 2006; as supplemented by Supplemental Indenture No 10, dated as of November 1, 2006; as supplemented by Supplemental Indenture Nos. 11 and 12, dated as of August 1, 2011, between Norton Healthcare, Inc., Norton Hospitals, Inc., and The Bank of New York Mellon Trust Company, NA; and as supplemented by Supplemental Indentures No. 13, dated as of October 1, 2012, between Norton Healthcare, Inc., Norton Hospitals, Inc., and The Bank of New York Mellon Trust Company, NA; and as supplemented by Supplemental Indenture No. 14, dated as of September 1, 2013, between Norton Healthcare, Inc., Norton Hospitals, Inc., and The Bank of New York Mellon Trust Company, NA; and as supplemented by Supplemental Indenture No. 15, dated as of September 1, 2013, between Norton Healthcare, Inc., Norton Hospitals, Inc., and The Bank of New York Mellon Trust Company NA; and as supplemented by Supplemental Indenture No. 16, dated as of December 1, 2013, between Norton Healthcare, Inc., Norton Hospitals, Inc., and The Bank of New York Mellon Trust Company NA. The calculation includes the accounts of Norton Healthcare, Inc. and its restricted affiliate, Norton Hospitals, Inc. Management also is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule of the debt service coverage ratio calculation that is free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the schedule of the debt service coverage ratio calculation based on our audit. We conducted our audit 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 schedule of the debt service coverage ratio calculation is free of material misstatement.

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

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

Opinion

In our opinion, the schedule referred to above presents fairly, in all material respects, the debt service coverage ratio calculation of Norton Healthcare, Inc. and Affiliates as of December 31, 2013 and for the year then ended, on the basis of the requirement referred to in the preceding paragraph.

Contractual Basis of Accounting

As described in Note 1 to the schedule, the schedule was prepared by Norton Healthcare, Inc. and Affiliates on the basis of the financial reporting provisions of Section 5.7 of Article V of the Amended and Restated Master Trust Indenture dated as of September 15, 1997, as supplemented by Supplemental Indentures Nos. 1 and 2, dated as of September 15, 1997; as supplemented by Supplemental Indenture No. 3, dated as of October 1, 1998, by and between Norton Healthcare, Inc. and Bank One, Kentucky, NA; as supplemented by Supplemental Indenture No. 4 dated as of September 1, 2000; as supplemented by Supplemental Indenture No. 5, dated as of January 4, 2001; as supplemented by Supplemental Indenture No. 6, dated as of July 1, 2003, by and between Norton Healthcare, Inc., Norton Hospitals, Inc. and Bank One, Kentucky, NA; as supplemented by Supplemental Indenture No. 7, dated as of March 17, 2004; as supplemented by Supplemental Indenture No. 8, dated as of September 1, 2004; as supplemented by Supplemental

Indenture No. 9, dated as of October 1, 2006; as supplemented by Supplemental Indenture No 10, dated as of November 1, 2006; as supplemented by Supplemental Indenture Nos. 11 and 12, dated as of August 1, 2011, between Norton Healthcare, Inc., Norton Hospitals, Inc., and The Bank of New York Mellon Trust Company, NA; and as supplemented by Supplemental Indentures No. 13, dated as of October 1, 2012, between Norton Healthcare, Inc., Norton Hospitals, Inc., and The Bank of New York Mellon Trust Company, NA.; and as supplemented by Supplemental Indenture No. 14, dated as of September 1, 2013, between Norton Healthcare, Inc., Norton Hospitals, Inc., and The Bank of New York Mellon Trust Company, NA; and as supplemented by Supplemental Indenture No. 15, dated as of September 1, 2013, between Norton Healthcare, Inc., Norton Hospitals, Inc., and The Bank of New York Mellon Trust Company NA; and as supplemented by Supplemental Indenture No. 16, dated as of December 1, 2013, between Norton Healthcare, Inc., Norton Hospitals, Inc., and The Bank of New York Mellon Trust Company NA, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended solely for the information and use of management, the Board of Trustees of Norton Healthcare, Inc. and Affiliates, Bank One, Kentucky, NA, and The Bank of New York Mellon Trust Company, NA and is not intended to be and should not be used by anyone other than the specified parties.

Ernst + Young LLP

April 7, 2014

Norton Healthcare, Inc. and its Restricted Affiliate, Norton Hospitals, Inc.

Debt Service Coverage Ratio

For the Year Ended December 31, 2013

Excess of revenue over expenses		$ 93,997,688
Depreciation and amortization		78,165,045
Interest expense		31,695,498
Loss on disposition of assets		3,211,065
Loss on extinguishment of debt		3,804,215
Unrealized gain on investments		(17,537,777)
Unrealized loss on swap mark-to-market		9,964,772
Income available for debt service	**(A)**	203,300,506
Principal and interest payments	**(B)**	$ 52,639,122
Debt service coverage ratio	**(A)/(B)**	3.86
Required debt service coverage ratio		1.10

Note 1—The method of calculating the income available for debt service is prescribed by Section 5.7 of Article V of the Amended and Restated Master Trust Indenture dated as of September 15, 1997, as supplemented by Supplemental Indentures Nos. 1 and 2, dated as of September 15, 1997; as supplemented by Supplemental Indenture No. 3, dated as of October 1, 1998, by and between Norton Healthcare, Inc. and Bank One, Kentucky, NA; as supplemented by Supplemental Indenture No. 4 dated as of September 1, 2000; as supplemented by Supplemental Indenture No. 5, dated as of January 4, 2001; as supplemented by Supplemental Indenture No. 6, dated as of July 1, 2003, by and between Norton Healthcare, Inc., Norton Hospitals, Inc. and Bank One, Kentucky, NA; as supplemented by Supplemental Indenture No. 7, dated as of March 17, 2004; as supplemented by Supplemental Indenture No. 8, dated as of September 1, 2004; as supplemented by Supplemental Indenture No. 9, dated as of October 1, 2006; as supplemented by Supplemental Indenture No. 10, dated as of November 1, 2006; and as supplemented by Supplemental Indenture Nos. 11 and 12, dated as of August 1, 2011; as supplemented by Supplemental Indenture No. 13, dated as of October 1, 2012; as supplemented by Supplemental Indenture Nos. 14 and 15, dated as of September 1, 2013; and as supplemented by Supplemental Indenture No. 16, dated as of December 1, 2013 between Norton Healthcare, Inc., Norton Hospitals, Inc., and The Bank of New York Mellon Trust Company, NA. The calculation includes the accounts of Norton Healthcare, Inc. and its restricted affiliate, Norton Hospitals, Inc.

Norton Healthcare, Inc.
Continuing Disclosure
For the year ended December 31, 2013

Liquidity
Norton Healthcare, Inc. and Affiliates
(dollars in thousands)

The Investment Subcommittee of the Finance & Core Operations Committee of the Corporation's Board of Trustees is responsible for the administration of the Investment Policy and for the oversight of investment portfolios of the System including pension funds, funded depreciation, trustee-held funds, self-insurance trust funds, and restricted assets. On a periodic basis, the Subcommittee measures fund performance, asset allocation and investment manager compliance with the Corporation's Investment Policy. A variety of criteria with limitations have been developed in order to control investment risk.

The following table sets forth the liquidity of the Corporation and its Affiliates in terms of operating cash and Board designated funds for capital improvements (funded depreciation). Excluded are pension funds, self-insurance trust funds, and temporarily and permanently restricted assets.

		December 31, 2013
Cash & Cash Equivalents	$	207,126,162
Marketable Securities & Other Investments		18,620,560
Assets Limited to use by Board		535,716,368
Subtotal		761,463,090
Debt Service Reserve Funds		30,129,917
	$	791,593,007
Daily Expenses (1)	$	3,596,794
Days cash on hand ratio (2):		
Excluding DSRF		212
Including DSRF		220

(1) Consistent with the Master Indenture definition of "Days Cash On Hand," the Daily Expenses include only those expenses of the Obligated Group
(2) Total liquid assets divided by daily expenses (total operating expenses less depreciation and amortization divided by 366).
Sources: Corporation's combined audited financial statements.

Norton Healthcare, Inc.
Continuing Disclosure
For the year ended December 31, 2013

Capitalization
Norton Healthcare, Inc. & Affiliates - Consolidated
For the year ended December 31, 2013
(dollars in thousands)

Long-Term Debt	
2013 Bonds	$ 279,580
2012 Bonds	17,950
2011 Bonds	135,920
2006 Bonds	301,080
2000 Bonds	245,120
Other debt and capital leases	48,233
Total long-term debt:	$ 1,027,883
Less:	
Unamortized discount/premium	$ 93,407
Current installments of long-term debt	27,717
Net long-term debt	906,759
Unrestricted net assets	734,878
Total Capitalization	$ 1,641,637
Net long-term debt as a percentage of total capitalization	55.24%

Source: Corporation's combined audited financial statements for the fiscal year ended December 31, 2013.

Norton Healthcare, Inc.
For the year ended December 31, 2013

Utilization Statistics

Certain utilization statistics for the Corporation and its Affiliates are set forth below. The statistics for "Adult Hospitals" include the operations of Norton Hospital, Norton Audubon Hospital, Norton Suburban Hospital and Norton Brownsboro Hospital only. "Pediatric Hospital" includes Kosair Children's Hospital and Kosair Children's Medical Center, which provides outpatient services and an emergency room.

	Year Ended December 31, 2013
Admissions:	
Adult Hospitals (A)	50,758
Pediatric Hospital	10,523
	61,281
Patient Days:	
Adult Hospitals (A)	241,846
Pediatric Hospital	77,402
	319,248
Average LOS (in Days):	
Adult Hospitals (A)	4.8
Pediatric Hospital	7.4
	5.2
Outpatient Occasions (B):	
Adult Hospitals (A)	374,360
Pediatric Hospital	45,235
	419,595
Emergency Visits:	
Adult Hospitals (A)	149,272
Pediatric Hospital	58,736
	208,008
Deliveries:	
Norton Hospital	3,017
Norton Suburban	5,156
	8,173
Ambulatory Surgeries:	
Adult Hospitals (A)	9,337
Pediatric Hospital	39,546
	48,883
Physician Practice Visits:	1,465,657
Total Licensed Beds:	
Adult Hospitals (A)	1,572
Pediatric Hospital	265
	1,837
Beds in Use:	
Adult Hospitals (A)	1,106
Pediatric Hospital	260
	1,366

(A) - Includes acute care services only.

(B) - An outpatient occasion is a visit of a hospital outpatient to a unit/department of a hospital regardless of the number of tests or services provided to the patient. Included within this statistic are the services provided by certain stand alone outpatient centers, providing a variety of services, operated as an outpatient department of the hospitals.

Norton Healthcare, Inc.
Continuing Disclosure
For the year ended December 31, 2013

The Obligated Group

Norton Healthcare, Inc. ("The Corporation") and Norton Hospitals, Inc. (also referred to as "Norton") are the only members of the Obligated Group as it relates to outstanding debt obligations at December 31, 2013.

The Affiliates

The term "Affiliates" refers to entities which are directly or indirectly controlled by the Corporation, by another Affiliate of the Corporation or by any person which controls the Corporation or any other Affiliate.

At December 31, 2013 the Affiliates are:

Norton Hospitals, Inc.
Community Medical Associates, Inc.
Norton Properties, Inc.
Children's Hospital Foundation, Inc.
Norton Healthcare Foundation, Inc.
Norton Enterprises, Inc.
Clinical Associates, Inc.
Norton Louisville Primary Care Center, Inc.

At December 31, 2013, the Obligated Group accounted for 84.5% of the total operating revenues and 99.5% of the total assets of the Corporation and its Affiliates.