and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny and perhaps enforcement by the IRS.

Also, under legislation passed by Congress in 2010, a hospital entity can lose its status as an Exempt Organization if it fails to comply with requirements under new Internal Revenue Code Section 501(r). Such requirements include conducting community health needs assessments, the development of written financial assistance policies, limiting the amounts charged for emergency or medically necessary care provided to individuals eligible for financial assistance, and limitations on certain "extraordinary" collections actions against such individuals. In some cases failure to comply with Section 501(r) will result in the imposition of an excise tax. Such requirements also could adversely affect the financial performance of the Obligated Group. The Alliance believes that it is currently in compliance with Section 501(r).

Periodically, Congress considers options and recommendations in the area of taxation of unrelated business income of Exempt Organizations. The scope and effect of legislation, if any, that may be adopted at the federal and state levels with respect to unrelated business income cannot be predicted at this time. However, any such legislation could have the effect of subjecting a portion of the income of the Alliance to federal or state income taxes.

In addition to the foregoing proposals with respect to income by Exempt Organizations, various state and local governmental bodies have challenged the tax-exempt status of such institutions and have sought to remove the exemption of property from real estate taxes of part or all of the property of various nonprofit institutions on the grounds that a portion of such property was not being used to further the charitable purposes of the institutions or that the institutions did not provide sufficient care to indigent persons so as to warrant exemption from taxation as a charitable institution. Several of these disputes have been determined in favor of the taxing authorities or have resulted in settlements.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of Exempt Organizations. There can be no assurance that future changes in the laws and regulations of federal, state or local governments, or the interpretation of such laws by courts or other governmental entities, will not materially adversely affect the operations and financial condition of the Alliance by requiring any of its entities to pay income or local property taxes.

Tax-Exempt Status of the Series 2012A Bonds. Any failure by the Alliance or related entities to remain qualified as tax-exempt under Section 501(c)(3) of the Code could affect the amount of funds that would be available to pay debt service on the Series 2012A Bonds. If the Alliance or the respective Issuer fails to comply continuously with certain covenants contained in the Bond Indenture and the Loan Agreement after delivery of the Series 2012A Bonds, interest on the Series 2012A Bonds could become taxable from the date of delivery of the Series 2012A Bonds regardless of the date on which the event causing such taxability occurs. See "TAX MATTERS."

In recent years, the IRS has undertaken an extensive audit program that involves review of both the general tax-exempt status of non-profit hospitals and the tax-exempt status of bonds issued for their benefit.

Legislative Proposals. Current and future legislative proposals, if enacted into law, could cause interest on the Series 2012A Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent owners thereof from realizing the full current benefit of the tax-exempt status of such interest. On September 12, 2011, the Obama Administration announced a legislative proposal, the "American Jobs Act of 2011" (the "Jobs Act"). If enacted in the form proposed, the Jobs Act would limit the exclusion from gross income of interest on obligations like the Series 2012A Bonds for individual taxpayers whose income is subject to higher marginal tax rates. The enactment of the Jobs Bill or similar provisions could adversely affect the tax treatment of interest on the Series 2012A Bonds for holders thereof and adversely affect the market price of the Series 2012A Bonds.

Other Risk Factors Generally Affecting Health Care Facilities

In the future, the following factors, among others, may adversely affect the operations of the Alliance to an extent that cannot be determined at this time:

1. Health care systems are major employers, combining a complex mix of professional, quasi-professional, technical, clerical, housekeeping, maintenance, dietary and other types of workers in a single operation. As with all large employers, the Alliance bears a wide variety of risks in connection with its employees. These risks include strikes and other related work actions, contract disputes, discrimination claims, personal tort actions, work-related injuries, exposure to hazardous materials, interpersonal torts (such as between employees, between physicians or management and employees, or between employees and patients), and other risks that may flow from the relationships between employer and employee or between physicians, patients and employees. Many of these risks are not covered by insurance, and certain of them cannot be anticipated or prevented in advance. The Alliance is subject to all of the risks listed above. Such risks, alone or in combination, could have material adverse consequences to the financial condition or operations of the Alliances.

2. Competition from other health care systems and other competitive facilities now or hereafter located in the respective service areas of the Alliance's facilities may adversely affect revenues. Development of health maintenance and other alternative health delivery programs could result in decreased usage of inpatient hospital facilities and other facilities operated by the Alliance.

3. Cost and availability of any insurance, such as malpractice, fire, automobile, and general comprehensive liability, that hospitals and other health care facilities of similar size and type as the facilities generally carry may adversely affect revenues, as would any losses that exceed amounts covered.

4. The occurrences of natural disasters may damage some or all of the facilities, interrupt utility service to some or all of the facilities, significantly increase the demand on some or all of the facilities or otherwise impair the operation of some or all of the facilities or the generation of revenues from some or all of the facilities.

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

6. Reduced demand for the services of the Alliance that might result from decreases in population in the services areas of facilities operated by the Alliance.

7. Increased unemployment or other adverse economic conditions in the service areas of the Alliance that would increase the proportion of patients who are unable to pay fully for the cost of their care.

8. Any increase in the quantity or cost of indigent care provided that is mandated by law or required due to increase needs of the community in order to maintain the charitable status of the Alliance.

9. Regulatory actions that might limit the ability of the Alliance to undertake capital improvements to their respective facilities or to develop new institutional health services.

LITIGATION

There is no action, suit, or proceeding pending or, to the knowledge of the Issuer, threatened restraining or enjoining the execution or delivery of the Series 2012A Bonds, or in any way contesting or affecting the validity of the Series 2012A Bonds, the Bond Indenture, the Master Indenture, or any proceedings of the Issuer or the Alliance, as applicable, taken with respect thereto. No securities of any Issuer have been in default as to principal or interest payments or in any other material respect, and no agreements or legal proceedings of any Issuer relating to its securities have been declared invalid or unenforceable since the formation of each Issuer. Each Issuer will provide a certificate to this effect at the time of delivery of the Series 2012A Bonds.

There is no action, suit, or proceeding pending or threatened restraining or enjoining the execution or delivery of the Series 2012A Obligation, or in any way contesting or affecting the validity of the Series 2012A Obligation, the Master Indenture, the Loan Agreement or any proceedings of the Alliance taken with respect thereto. No securities of the Alliance have been in default as to principal or interest payments or in any other material respect, and no agreements or legal proceedings of the Alliance relating to its securities have been declared invalid or unenforceable since the original formation of the corporation now called Mountain States Health Alliance. The Alliance will provide a certificate to this effect at the time of delivery of the Series 2012A Bonds.

For other litigation matters involving the Alliance, see "HISTORY AND OVERVIEW - Insurance; Litigation" in Appendix A hereto.

LEGAL MATTERS

Legal matters relating to the authorization and issuance of the Series 2012A Bonds are subject to the approving opinion of Bass, Berry & Sims PLC of Nashville and Knoxville, Tennessee, as Bond Counsel, which will be delivered with the Series 2012A Bonds. Certain legal matters relating to the Series 2012A Bonds will also be passed upon by Samuel B. Miller, Esq., Johnson City, Tennessee, as counsel to the Issuer, and by Anderson & Fugate, Johnson City, Tennessee, as counsel to the Alliance. Certain legal matters will be passed upon by Hunton & Williams LLP, as counsel to the Underwriter.

TAX MATTERS

In the opinion of Bond Counsel, under existing law, interest on the Series 2012A Bonds (a) will not be included in gross income for federal income tax purposes, and (b) will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; such interest, however, is taken into account in determining the adjusted current earnings for purposes of the alternative minimum tax on corporations (as defined for federal income tax purposes).

In the opinion of Bond Counsel, under existing laws of the State of Tennessee, the Series 2012A Bonds and the income therefrom shall be exempt from all state, county, and municipal taxation in the State of Tennessee except for inheritance, transfer, gift and estate taxes and except to the extent interest on the Series 2012A Bonds may be included within the measure of certain franchise and excise taxes imposed under Tennessee law.

Bond Counsel's tax opinion is given in reliance upon certifications by representatives of the Issuer and the Alliance as to certain facts relevant to both the opinion and the requirements of the Code. The Issuer and/or the Alliance have covenanted to comply with the provisions of the Code regarding, among other matters, the use, expenditures, and investment of the proceeds of the Bonds and the timely payment of arbitrage profits with respect to the Bonds to the United States. Failure by the Issuer or the Alliance to comply with such covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance.

In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, property and casualty insurance companies, certain S corporations, certain foreign corporations subject to the branch profits tax, corporations subject to the environmental tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Particular Tax Situations

Prospective purchasers of Bonds should consult their own tax advisors as to the applicability and extent of federal, state, local or other tax consequences to the purchase, ownership and disposition of Bonds in light of their particular tax situation.

RATINGS

Fitch Ratings ("Fitch"), Moody's Investors Services, Inc. ("Moody's") and Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. ("S&P") have assigned the Series 2012A Bonds the respective ratings set forth below:

Moody's:	Baa1
Standard & Poor's:	BBB+
Fitch:	BBB+

Certain materials and information relating to the Series 2012A Bonds and the Alliance that may not be described in this Official Statement were furnished to the rating agencies in connection with the issuance of the ratings. Generally, rating agencies base their ratings on such materials and information and on their own investigations, studies and assumptions. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant.

No information is provided regarding the ratings of other outstanding bonds issued for the benefit of the Alliance and related entities.

UNDERWRITING

The Series 2012A Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated, (the "Underwriter") pursuant to a purchase contract with the Issuer dated August 24, 2012 (the "Bond Purchase Agreement"). The Bond Purchase Agreement sets forth the Underwriter's obligation to purchase the Series 2012A Bonds at an aggregate purchase price of $56,364,550.00, representing the par amount plus an original issue premium of $1,865,050.00 and less an Underwriter's discount of $500,500.00 (0.91% of the principal amount thereof) and is subject to certain terms and conditions, including the approval of certain legal matters by counsel. The Bond Purchase Agreement provides that the Underwriter will purchase all of the Series 2012A Bonds if any are purchased. The Underwriter may offer and sell the Series 2012A Bonds to certain dealers (including dealers depositing the Series 2012A Bonds into investment trusts) and others at prices or yields different from the public offering prices and yields stated on the inside cover of this Official Statement. The public offering prices and yields may be changed from time to time at the discretion of the Underwriter. From time to time, the Underwriter may enter into other transactions with the Alliance, including interest rate swaps and options, for which it receives other compensation.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriter and its affiliates may, from time to time, perform various financial advisory and investment banking services for the Alliance, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Alliance. The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

INDEPENDENT AUDITORS

The consolidated financial statements of the Alliance as of and for the years ended June 30, 2011 and 2010, included in Appendix B to this Official Statement, have been audited by Pershing Yoakley & Associates, P.C.

CONTINUING DISCLOSURE AGREEMENT

The Agreement

To permit compliance by the Underwriter with the continuing disclosure requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, the Alliance will execute a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") at closing pursuant to which the Alliance will agree to provide certain quarterly and annual financial information and material event notices required by the Rule. Such information will be filed through the Electronic Municipal Market Access System ("EMMA") maintained by the Municipal Securities Rulemaking Board and may be accessed through the Internet at emma.mrsb.org. The proposed form of the Continuing Disclosure Agreement is set forth in Appendix E. It requires the Alliance to provide **only limited information at specific times, and the information provided may not be all the information necessary to value the Series 2012A Bonds at any particular time.** The Alliance may from time to time disclose certain information and data in addition to that required by the Continuing Disclosure Agreement. If the Alliance chooses to provide any additional information, the Alliance shall have no obligation to continue to update such information or to include it in any future disclosure filing.

Failure by the Alliance to comply with the Continuing Disclosure Agreement is not an Event of Default under the Loan Agreement. The Continuing Disclosure Agreement provides that the only remedy for its violation is a lawsuit seeking specific performance.

Prior Undertakings

In connection with the issuance of previous bonds, the Alliance has entered into continuing disclosure undertakings similar to the Continuing Disclosure Agreement. Prior to July 1, 2009, the Alliance's filings under such undertakings were made through the then existing national recognized municipal securities information repositories. Since then filings have been made through EMMA.

The Alliance failed to make certain filings previously scheduled under previous continuing disclosure undertakings. In November, 2008, the Alliance submitted Annual Financial Information for the fiscal years ended June 30, 2000, through June 30, 2008, and Quarterly Financial Information for the quarters ended March 31, 2000, through June 30, 2008. Such filings were not timely under the Alliance's existing continuing disclosure undertakings. The Alliance has made timely filings of the Quarterly Financial Information for the quarters ending September 30, 2008, through June 30, 2012. The Alliance believes it has now made all filings required under all of its continuing disclosure undertakings.

RELATIONSHIPS OF PARTIES

As noted above, the Alliance or its affiliates have entered into interest rate swaps and other financial transactions with affiliates of the Underwriter.

From time to time, Bond Counsel and Hunton & Williams LLP have represented the Alliance in other matters, and may do so in the future. Bond Counsel also has represented the Underwriter in unrelated transactions. Anderson & Fugate, counsel to the Alliance, receives a substantial portion of its annual legal fee income from the Alliance. The Alliance typically engages in bidding to select the contractors for its capital projects. Whether or not such projects are bid, from time to time the contractor selected may be one in which members of the board of directors the Issuer or the Alliance have an interest.

MISCELLANEOUS

This Official Statement and its distribution and use by the Underwriter have been duly authorized and approved by the Issuer and by the Alliance. This Official Statement has been executed and delivered by the Chairman of each Issuer on behalf of each Issuer and by the Senior Vice President and Chief Financial Officer of the Alliance on behalf of the Alliance.

So far as any statements made in this Official Statement involve matters of opinion, forecasts or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement.

THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF THE CITY OF JOHNSON CITY, TENNESSEE

By /s/ *W. Hanes Lancaster*
Chairman

MOUNTAIN STATES HEALTH ALLIANCE

By /s/ *Marvin H. Eichorn*
Senior Vice President and Chief Financial Officer

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APPENDIX A

MOUNTAIN STATES HEALTH ALLIANCE

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HISTORY AND OVERVIEW

Background

Mountain States Health Alliance (the "Alliance"), a Tennessee not-for-profit corporation headquartered in Johnson City, Tennessee, was originally incorporated as Memorial Hospital on April 12, 1945. In January 1951, the corporation acquired Appalachian Hospital and Training School, an 82-bed acute care facility in Johnson City, and simultaneously opened a 120-bed acute care facility in Johnson City. By 1977 its facilities had expanded to include 369 acute care beds and a 52-bed nursing home. In September 1980, the facilities were relocated and began operating as the Johnson City Medical Center ("JCMC"). In 1983 the corporation changed its name to the Johnson City Medical Center Hospital, Inc. The corporation has been determined to be an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

In 1998, the Alliance purchased the assets and assumed certain liabilities of five hospitals from Columbia/HCA (the "1998 Acquisition") located in Johnson City, Kingsport, and Elizabethton, Tennessee. In 1999, the corporation changed its name to Mountain States Health Alliance. On May 1, 2005, the Alliance purchased the assets of Woodridge Hospital, an acute inpatient psychiatric facility in Johnson City. On November 1, 2006, the Alliance purchased an 80% membership interest in Smyth County Community Hospital, which owns a general acute care facility and a 109-bed long-term care facility in Southwest Virginia. On October 31, 2007, the Alliance purchased a 50.1% membership interest in Norton Community Hospital, which owns and operates both Norton Community Hospital and Dickenson County Community Hospital in Southwest Virginia. On January 31, 2008, the Alliance acquired the assets and liabilities of Russell County Medical Center in Lebanon, Virginia. On April 1, 2009, the Alliance acquired a 50.1% interest in Johnston Memorial Hospital, which owns a 116-bed facility in Abingdon, Virginia. Listed below are facilities currently owned or controlled by the Alliance:

Facility	Location	Licensed Beds (excludes nursery)
Johnson City Medical Center ("JCMC")*	Johnson City, TN	514
James H. & Cecile Quillen Rehabilitation Hospital ("Quillen") *	Johnson City, TN	60
Woodridge Hospital ("Woodridge")*	Johnson City, TN	84
Franklin Woods Community Hospital ("Franklin Woods")	Johnson City, TN	80
Indian Path Medical Center ("Indian Path")	Kingsport, TN	261
Sycamore Shoals Hospital ("Sycamore Shoals")	Elizabethton, TN	121
Johnson County Community Hospital ("Johnson County Community ")	Mountain City, TN	2
Smyth County Community Hospital ("Smyth County Community") (1)	Marion, VA	153
Norton Community Hospital ("Norton Community") (2)	Norton, VA	129
Dickenson Community Hospital ("Dickenson Community") (2)	Clintwood, VA	25
Russell County Medical Center ("Russell")	Lebanon, VA	78
Johnston Memorial Hospital ("Johnston Memorial") (2)	Abingdon, VA	116
		1,623

*JCMC, Quillen and Woodridge are operated under a single 658-bed hospital license.
(1) 80% membership interest held by the Alliance.
(2) 50.1% membership interest held by the Alliance.

In addition to the above-described hospital facilities, the Alliance owns directly or through wholly-owned subsidiaries, medical office buildings, physician practices, undeveloped land and outpatient surgery centers.

Operations of the Alliance

The facilities of the Alliance are naturally divided geographically into two groupings: (i) the "Tennessee Facilities," which include JCMC, Quillen, Woodridge, and Franklin Woods, all in Washington County; Indian Path, in Sullivan County; Sycamore Shoals, in Carter County; and Johnson County Community, in Johnson County; and (ii) the "Virginia Facilities," which include Smyth County Community, in Smyth County; Norton Community, in the City of Norton; Dickenson Community, in Dickenson County; Russell, in Russell County; and Johnston Memorial, in Washington County. All of the Tennessee hospital facilities and Russell are owned by the Alliance. Smyth

County Community is owned by Smyth County Community Hospital; Norton Community is owned by Norton Community Hospital; and Johnston Memorial is owned by Johnston Memorial Hospital.

Johnson City Medical Center is a 514 licensed bed, general acute care facility located on a 75-acre site on State of Franklin Road, a major regional thoroughfare in Johnson City. JCMC provides a wide array of acute care services on an inpatient and outpatient basis, including a complete range of cardiovascular, neurology, oncology, skilled nursing, and rehabilitation services. JCMC also operates a 69 licensed bed children's hospital with the region's only pediatric-specific emergency department. JCMC is designated as a Level III Perinatal Center and a Level I trauma center. JCMC earned international recognition as a Magnet Hospital by the American Nurses Credentialing Center. On or adjacent to JCMC's main campus are seven physician office buildings providing office space for approximately 75 physicians.

The James H. & Cecile C. Quillen Rehabilitation Hospital (formerly Northeast Tennessee Rehabilitation Hospital) is a 60 licensed bed rehabilitation and skilled nursing hospital in Johnson City, operated under the JCMC license. This facility provides a complete array of skilled nursing services as well as rehabilitative services for individuals with brain injury, stroke, or spinal cord injury, amputation and other orthopedic and neurological diagnosis. These rehabilitative services include respiratory, occupational, physical, and speech therapy. The facility also provides pediatric outpatient rehab services. The facility was constructed in 1991.

Woodridge Hospital is an 84 licensed bed, acute-care facility located in Johnson City, offering psychiatric and substance abuse services. This facility was purchased in May, 2005 and is operated under the JCMC license.

Franklin Woods Community Hospital is an 80 licensed bed facility offering a full array of primary care and some specialty services. Franklin Woods opened in July 2010 (replacing Johnson City Specialty and North) and was the first "green" hospital in the state.

Indian Path Medical Center is a 261 licensed bed facility in Kingsport. This facility provides a complete range of medical/surgical, acute care, psychiatric and skilled nursing services on an inpatient basis and a full complement of outpatient services. The facility is located on an 80 acre campus that also includes nine medical office buildings. Indian Path Medical Center was constructed in 1974.

Sycamore Shoals Hospital is a 121 licensed bed general acute care hospital in Elizabethton, Tennessee (Carter County). The facility provides inpatient, geropsychiatric, and outpatient services for acute care and medical/surgical patients. Sycamore Shoals was founded in 1955 as Carter County Memorial Hospital. It was moved to a newly constructed facility in 1986. A medical office building constructed in 2010 is also located on the main campus.

Johnson County Community Hospital is a facility located in Mountain City with two licensed beds and critical access designation. Johnson County offers inpatient care, emergency care, and outpatient services.

Smyth County Community Hospital is a 153 licensed bed, general acute, skilled and long term care hospital in Marion, Virginia, owned by Smyth County Community Hospital (the "Smyth County Corporation"), a Virginia non-stock corporation in which the Alliance controls an 80% interest. The current facility was built in 2012, and provides a full range of acute inpatient and outpatient care, including OB/GYN, general surgery, urology, ENT, orthopedics, cardiology, oncology, and skilled nursing services. The new facility meets LEED standards and is certified as a "green" facility. Nursing home services provided by Francis Marion Manor, a 109 licensed bed long term care facility, are included as part of Smyth County Community's bed complement. Smyth County Corporation is a member of the Obligated Group.

Norton Community Hospital, located in the City of Norton, Virginia, is a 129 licensed bed, acute-care facility, which has served Southwest Virginia and Southeastern Kentucky since 1949. Norton Community is owned and operated by Norton Community Hospital (the "Norton Corporation"), a Virginia non-stock corporation in which the Alliance controls a 50.1% interest. The largest healthcare facility in the coalfield region, Norton Community provides a wide array of services through highly trained physicians and support staff. Norton Community is a member of the Virginia Hospital and Healthcare Association and is accredited by the American Osteopathic

Association. Norton Community was the first AOA accredited teaching facility in the state of Virginia. The Norton Corporation is a member of the Obligated Group.

Dickenson Community Hospital, located in Clintwood, Virginia, opened in November 2003. It is a 25 licensed bed critical access hospital owned and operated by the Norton Corporation. A recent expansion included a 5,700 square foot physician office building on the hospital campus. Dickenson Community offers laboratory, imaging, inpatient acute care and a wide array of therapy services. Dickenson Community is not a member of the Obligated Group.

Russell County Medical Center is a 78-bed acute care hospital located in Lebanon, Virginia, which includes a 20-bed inpatient psychiatric unit. Russell offers cardiac, home health, hospice, surgical and behavioral healthcare services. Russell is wholly owned by the Alliance, which is an Obligated Issuer.

Johnston Memorial Hospital is a 116 licensed bed, general acute care hospital in Abingdon, Virginia, which can trace its history back to a 12 bed facility started in 1905. Johnston Memorial provides a wide array of healthcare services in a newly constructed facility that opened in 2011. Johnston Memorial is owned and operated by Johnston Memorial Hospital, Inc. (the "Johnston Corporation"), in which the Alliance owns a 50.1% interest. The Johnston Corporation is not a member of the Obligated Group and the Obligated Issuers are not required to pay debt service on the JMH Bonds.

Operations of Subsidiary and Other Affiliates

The Alliance directly owns and operates the hospital facilities listed above that are located in Tennessee, and directly owns and operates Russell in Lebanon, Virginia. It has controlling membership interests in the corporations that own Smyth County Community, Norton Community, Dickinson Community and Johnston Memorial. Additionally, the Alliance owns or otherwise controls a number of for-profit and not-for-profit affiliates that provide complementary health care services and help support the health care needs of the region. The principal affiliates are Mountain States Foundation, Inc., Mountain States Health Alliance Auxiliary, Integrated Solutions Health Network ("ISHN"), and Blue Ridge Medical Management Corporation ("Blue Ridge").

ISHN is a Tennessee for-profit limited liability company established in 2009 and 98% owned by the Alliance. ISHN has two lines of business: (1) an accountable care organization (the "ACO") and (2) CrestPoint Health ("CrestPoint"). The ACO has created a network of participating physicians, hospitals and other health care providers, and participates, pursuant to a contract with the Centers for Medicare and Medicaid Services, in the Medicare Shared Savings Program established pursuant to Section 3022 of the Patient Protection and Affordable Care Act and its implementing regulations. The ACO may enter into shared savings or other contracts with other third party payors. CrestPoint provides third party administrator services to the Alliance for its self-insured employee health plan.

Blue Ridge is a Tennessee for-profit stock corporation, and the Alliance owns 100% of its stock. Blue Ridge in turn owns all of the stock or other ownership interest in the following entities (collectively, the "Blue Ridge Affiliates"): Mountain States Physician Group, Inc., Mountain States Properties, Inc., Mediserve Medical Equipment of Kingsport, Inc., Wilson Pharmacy, Inc., and Synergy Health Group LLC. While Blue Ridge is an Obligated Issuer under the Master Indenture, none of the Blue Ridge Affiliates is an Obligated Issuer. Blue Ridge provides, directly or through the Blue Ridge Affiliates, management services for clinics in ten counties at 90 locations (46 specialty care, 34 primary care, and 10 urgent care and occupational medicine clinics). At the 90 locations, Blue Ridge provides management services to a total of 182 practicing physicians, 59 nurse practitioners, 12 physician assistants and five nurse anesthetists. Blue Ridge has various levels of ownership in five surgery centers and owns and/or manages a total of 26 medical office buildings, six of which are held in condominium-ownership form.

Obligated Issuers

The Obligated Issuers under the Amended and Restated Master Trust Indenture dated as of February 1, 2000, as amended (the "Master Indenture"), with The Bank of New York Mellon Trust Company, N.A., as master trustee, are the Alliance, Smyth County Community Hospital, Norton Community Hospital an Blue Ridge Medical Management Corporation.

Inpatient Bed Complement

The following table shows the Alliance's licensed bed capacity by service line as of July 1, 2012:

Service	Licensed Beds	Distribution
Medical/Surgical	989	61%
OB/GYN	93	6
Critical Care	125	8
Neonatal	51	3
Psychiatry	136	8
Rehabilitation	51	3
Skilled Nursing / Nursing Home	178	11
Total	1,623	100%

Source: The Alliance.

Educational Programs

Pursuant to an agreement with the Division of Health Sciences at East Tennessee State University ("ETSU"), the Alliance provides JCMC as a site for clinical and other training of medical students and residents from ETSU's James H. Quillen College of Medicine ("QCM"), nursing students at the associate, baccalaureate and master's level from the School of Nursing and students from the School of Public and Allied Health. Woodridge provides sites for clinical training for QCM psychiatric residents. Approved medical residencies are offered by ETSU in Family Medicine, Internal Medicine/Psychiatry, OB/GYN, Pathology, Pediatrics, Cardiology, Infectious Disease, Pulmonary/Critical Care, Sleep and General Surgery. Approved fellowships are offered by ETSU in Gastroenterology and Medical Oncology. JCMC is also a clinical site for various health professional and allied health programs located in Tennessee, Kentucky, Virginia and North Carolina.

QCM, which is located adjacent to JCMC, has made a commitment to promote medical educational programs in Johnson City, Tennessee. With QCM's location adjacent to JCMC and the Veteran Affairs Medical Center at Mountain Home, a large portion of QCM's clinical training occurs at JCMC. An ETSU facility housing clinical training programs is located across the street from JCMC. QCM's presence promotes the presence of substantial numbers of physicians in private practice. Additionally, the concentration of medical specialists, researchers, and medical educators in Johnson City make the Alliance competitively stronger in patient care opportunities in the region and also provides a good source of nurses for Alliance facilities.

Licenses and Accreditation

The Tennessee Facilities are licensed by the State of Tennessee Department of Health and Environment; the Virginia Facilities are licensed by the Virginia Department of Health. All facilities are accredited by The Joint Commission ("TJC"). Norton and Quillen are accredited by the Commission of Accreditation of Rehabilitation Facilities. The Alliance facilities are accredited by the College of American Pathologists. JCMC is also accredited by the American College of Surgeons Commission on Cancer and is designated as a Regional Perinatal Center by the Tennessee Department of Health and Environment.

Employees

As of June 30, 2012, the Alliance employed a staff of 9,130 persons (equal to approximately 7,735 full-time equivalent employees), including 3,634 registered/licensed practical nurses. The Alliance's employees are covered for a variety of employee benefits, including a qualified defined contribution pension plan, health and dental insurance, life insurance and vacation, holiday and sick time benefits. Certain employees at Norton Community and Dickenson Community are represented by a union. The Alliance has never experienced a strike or other work stoppage by its employees. The Alliance considers its employee relations to be excellent.

Pension Plan

The Alliance has a qualified defined contribution pension plan covering substantially all of its employees. Contributions to the defined contribution pension plan are current. The Norton Corporation has a defined benefit plan that was terminated and all benefit accruals were frozen effective December 31, 2006. The Norton Corporation's defined benefit plan has met the ERISA minimum funding requirements.

Insurance; Litigation

The Alliance is substantially self-insured and has established self-insurance reserves to provide for professional and general liability claims and related expenses in amounts based upon an annual actuarial valuation. The self-insurance program currently has the following limits: $10,000,000 per claim; with an annual aggregate of $15,000,000. The Alliance has never had a claim to exceed the self-insurance limits. The Alliance maintains a $25,000,000 excess/umbrella policy, which attaches over the self-insurance fund's $10,000,000 per claim, $15,000,000 annual aggregate retention.

Additionally, the Alliance is self-insured for employee health and worker's compensation claims for the Tennessee Facilities. For the Virginia Facilities, the Alliance is self-insured for employee health and maintains a large deductible policy for worker's compensation claims with limits of $750,000 per employee per accident, $2,500,000 aggregate, $5,000,000 all covered bodily injury aggregate maximum for the policy period. The Alliance recognizes expense each year based upon actual claims paid and an estimate of claims incurred, but not yet paid. The Alliance has established a reserve for reported and unreported worker's compensation claims based upon an annual actuarial valuation.

The Alliance and related entities are defendants in litigation relating to medical malpractice, worker's compensation and other claims arising in the ordinary course of business. Based on an evaluation of pending and threatened actions, management of the Alliance does not believe that any existing litigation, individually or collectively, would materially and adversely affect the financial resources of the Alliance or the business or continuous operation of the Alliance. Furthermore, the Alliance has accrued amounts in its self-insurance reserves at levels that it believes are sufficient to provide for payments reasonably projected to be due in connection with pending and potential claims and liabilities of the Alliance.

MEDICAL SERVICES

The Alliance provides a wide range of general and specialty medical services for the residents of Northeast Tennessee and Southwest Virginia and the surrounding states of Kentucky and North Carolina. The majority of tertiary care provided by the Alliance is concentrated at Johnson City Medical Center. Some highlights of the medical services and programs offered by the Alliance are described below.

Surgical Services. The Alliance has approximately 60 operating rooms located in eight facilities. The Alliance's surgical facilities are equipped with state-of-the-art technologies to meet the health care needs of the region. The Alliance provides services in all major surgical specialties including orthopedics, vascular, cardiothoracic, neurological, general, gynecological, laparoscopic, laser, urological, oncological, pediatric, plastic, ear, nose and throat, dental and transplant services.

Cardiovascular Services. The Alliance offers comprehensive regional cardiac services and highly advanced equipment for the detection, treatment, care and rehabilitation of those with heart problems. Advanced services include a wide range of non-invasive tests, cardiac catheterization, angioplasty and open-heart surgery. JCMC is known throughout the region for its medical expertise in cardiac care and has been recognized as the region's top hospital for cardiovascular services by US News and World Report for three consecutive years, most recently in 2012. Indian Path provides a full complement of cardiovascular services including interventional cardiology. Johnston Memorial's services include diagnostic cardiac catherization.

Pulmonary Medicine. Respiratory therapy services are provided at each of the Alliance's facilities. The Center for Pulmonary Medicine at JCMC diagnoses and manages disorders of the respiratory and the pulmonary vascular systems, including emphysema and black-lung disease. A state-of-the-art metabolic laboratory assesses heart and respiratory problems. Pulmonary outreach services are provided at JCMC.

Comprehensive Wound Care is provided at JCMC, Norton Community, and Johnston Memorial. JCMC is the home to three hyperbaric oxygen chambers and Norton Community and Johnston Memorial each have one chamber

Women's Services. The Alliance provides specially designed women's services equipped to meet the unique health needs of women. Locations for obstetric and newborn care include The Family Birth Centers at JCMC, Franklin Woods, Indian Path, Norton Community, and Johnston Memorial. Gynecologic care is provided at each of the preceding facilities as well as Smyth County Community and Sycamore Shoals. The complement of women's services includes: routine and high-risk obstetrical care, gynecological surgery, breast disease diagnosis and treatment, fertility services, laser and microscopic surgery, plastic surgery, wellness/fitness programs, and educational sessions covering a wide spectrum of women's concerns. The Family Birth Center at JCMC includes the region's only State-designated Perinatal Center for pregnancy and newborn medical complications and a transport team to bring critically ill infants to the Niswonger Children's Hospital at JCMC.

Children's Services. The Niswonger Children's Hospital at JCMC is the only children's hospital in northeast Tennessee. More than 20 pediatric subspecialties provide specialty care through this 69 licensed bed "hospital within a hospital" and pediatric emergency department. The Children's Hospital has met stringent criteria to become a member of the National Association of Children's Hospitals and Related Institutions (NACHRI), linking providers and staff with more than 130 of the nation's leading pediatric facilities. Also located on the campus of JCMC is the region's only *Ronald McDonald House*, with the mission of meeting the support needs of pediatric patients and family members. In addition, in October 1999, the Alliance entered into a clinical affiliation with St. Jude's Children's Research Hospital to provide pediatric cancer and other catastrophic disease treatment services.

Diabetes Services. The Alliance provides diabetes management programs with specialized healthcare providers able to address the needs of the diabetic patient. The diabetes services emphasizes the importance of patient education and support with both patient and family involvement in the treatment process and provides education in all aspects of diabetes management.

Rehabilitation Services. The James H. and Cecile C. Quillen Rehabilitation Hospital provides a complete range of physical rehabilitative services for the region, including specialized rehabilitative services for individuals with brain injuries, strokes and spinal cord injuries. The Alliance also provides outpatient physical, occupational, and speech therapies at eight locations for individuals with physical disabilities.

Cancer Services. The Alliance provides comprehensive cancer treatment services throughout the system with four tertiary care facilities in Johnson City, Kingsport, Abingdon, and Marion. The Regional Cancer Center at JCMC serves as a referral center and education host for students, and is the only facility within several hours travel time with specialized infrastructure capable of supporting the treatment of complex cases such as pediatric cancers and acute leukemia. The St. Jude's Children's Research Hospital, Tri-Cities Affiliate, is located on JCMC's campus. It is a collaborative effort between the Alliance, East Tennessee State University, and St. Jude's Children's Research Hospital in Memphis to provide pediatric oncology services in the region. Regional Cancer Centers at Indian Path, Johnston Memorial, and Smyth County Community provide surgical and chemotherapy treatments to patients from northeast Tennessee and Southwest Virginia. Outpatient radiation services are provided at Regional

Cancer Centers at Indian Path and Johnston Memorial. The program emphasizes the use of market-leading facility design, multi-specialty team-based care, highly trained and certified sub-specialty staff and an emphasis on patient-centered care.

Behavioral Health Services. Respond/Crisis Line provides information, assessment, and referral assistance to patients in need of psychiatric services. Services are provided at three locations. Woodridge provides inpatient care for children, adolescents, adults, and geriatric populations and outpatient services, including Intensive Outpatient Program for adults. Sycamore Shoals provides inpatient Geropsych services. Russell provides inpatient acute psychiatry and outpatient services for adults.

In addition to the services described above, the Alliance offers many other services throughout the region including emergency departments and urgent care centers, skilled nursing facilities, and the medical air transport service called *WINGs Air Rescue*.

Medical Staff

As of June 30, 2012, there were 1,067 physicians and dentists on the Alliance's active, courtesy and consulting medical staffs. Of the 1,067 physicians on staff, 753 are board certified in their specialty. The average age of the medical staff is 50.34 years.

Medical staff appointment is available to licensed physicians, dentists, podiatrists and certain other professionals who are licensed to practice in the State of Tennessee or Virginia, as applicable, and who meet other specific requirements of the medical staff by-laws. Appointments and re-appointments are made by the Alliance Board of Directors upon the recommendations of the various medical staffs and the Alliance's administrative staff. Associate staff members are persons who have applied for active staff membership, but have been on the staff for less than two years.

The Alliance conducts a recruitment program to support the recruiting efforts of the affiliated medical staff. Recruiting assistance is provided to both private and university affiliated physicians as requested, and includes contracting and interaction with recruiting firms, receipt and screening of candidates' curriculum vitae, candidate site visit, and relocation and initial practice management assistance to the new physicians.

GOVERNANCE AND MANAGEMENT

Board of Directors

The management of the Alliance's affairs is vested in a Board of Directors consisting of not less than 9 and not more than 14 members, including the President/CEO, who serves as an ex-officio member. Except for the ex-officio member, directors serve for staggered three-year terms. Directors may be reappointed twice for a total of nine years on the Board before rotating off for at least one year before being reappointed. Standing committees of the Board of Directors include Executive, Finance, Governance/Nominating, and Corporate Audit and Compliance. Special committees may be appointed by the Chairman of the Board for specific assignments. Current officers and members of the Board of Directors and their occupations and dates of expiration of their terms are set forth below:

Name and Office Held	Business Affiliation	Term Expiration
Don Jeanes, Chairperson	Retired, Milligan College	2015
Joanne Gilmer, Vice Chairperson	Retired, General Shale Brick	2013
Clem Wilkes, Jr., Treasurer	Financial Advisor, Raymond James Financial Services	2014
Michael Christian, Secretary	Retired, Banker	2015
Bob Feathers, Past-Chair	President, Workspace Interiors, Inc.	2015
Sandra Brooks, M.D.	Pathologist, Watauga Pathology Associates	2015
Jeff Farrow, M.D.	Pulmonologist, Johnson City Medical Center	2015

Tom Fowlkes	General Counsel, The United Company	2015
Linda Garceau	Dean, College of Business & Technology, East Tennessee State University	2015
David May, M.D.	Anesthesiologist, Sycamore Shoals Anesthesia Assoc.	2013
Gary Peacock	Retired, Royal Mouldings Ltd.	2014
Rick Storey	Banker, Citizens Bank	2013
Dennis Vonderfecht, *Ex-Officio*	President and CEO of the Alliance	n/a

Further, five community-based boards serve as advisory boards for the Alliance's Board of Directors. The community-based boards represent the communities serviced by the following facilities: (1) Sycamore Shoals, (2) Johnson County Community, (3) Russell, (4) Indian Path and (5) Franklin Woods and JCMC. Four governing boards serve the Alliance's joint-ventured facilities and include: (1) Dickenson Community, (2) Johnston Memorial, (3) Norton Community, and (4) Smyth County Community. One other governing board oversees the operations of Blue Ridge Medical Management Corporation. The bylaws of the community boards are rooted in the Alliance's bylaws and the remaining boards are distinguished through separate bylaws. The bylaws of each of the community boards provide that their boards consist of no fewer than nine and no more than 18 persons. No more than thirty-three percent of the directors of each Community Board may consist of physicians. Terms vary for the remaining boards, but are predominately staggered for three-year terms.

Management of the Corporation

The President and Chief Executive Officer, selected by the Board of Directors, manages the Alliance's administrative staff and has the authority and responsibility of system-wide direction of the Alliance's facilities, subject to policies adopted by the Board of Directors or any of its committees to which it has delegated power for such action. The principal members of the administrative staff of the Alliance are described below.

Dennis Vonderfecht (61) – President and Chief Executive Officer. Mr. Vonderfecht has served as President and CEO since January 1990. Prior to joining the Alliance, he was employed by Research Health Services System in Kansas City, Missouri, where he held the position of Regional Vice President. Mr. Vonderfecht worked for Humana, Inc. for approximately eight years in capacities such as: Administrative Specialist at Humana Hospital, Greensboro, North Carolina; Associate Administrator at Gibson General Hospital, Trenton, Tennessee; Associate Executive Director for Humana Hospital, Brandon, Florida; Associate Executive Director, Humana Hospital, Greensboro, North Carolina; Project Manager for Parkway Medical Center, Cary, North Carolina; and as Executive Director, Humana Hospital, Newnan, Georgia. Mr. Vonderfecht's undergraduate study was at Colorado State University, and the University of Nebraska, where he was awarded a B.S. degree in Business Administration. He obtained two master's degrees from the University of Missouri, one in Business Administration and the other in Hospital Administration. He also holds an honorary doctorate from Milligan College. He presently serves on the Boards of Directors of Premier, Inc., ETSU Foundation, Tennessee Hospital Association, Tennessee Business Roundtable, Tennessee Valley Corridor Inc., and the Tennessee Center for Performance Excellence. Mr. Vonderfecht currently serves as Chairman of the Board for the Tennessee Center for Performance Excellence and has previously served as Chairman of the Tennessee Hospital Association Board of Directors and Chairman of the Board of Hospital Alliance of Tennessee. Mr. Vonderfecht is a Fellow in the American College of Healthcare Executives. He has been the recipient of the Distinguished Service Award and the Meritorious Service Award from the Tennessee Hospital Association and was awarded the American College of Healthcare Executives Regent's Award. He has also been recognized with the Health Care Heroes Award, as well as the Cup of Kindness Award through the Tri-Cities Business Journal. In addition, Mr. Vonderfecht was presented with a "Leaders in Christian Service" award by Milligan College and has received recognition as an "Honorary Alumni" by East Tennessee State University. Mr. Vonderfecht has announced his intention to retire as of December 31, 2013. A search committee of the Board of Directors has been formed to find replacement candidates.

Marvin Eichorn (56) - Senior Vice President and Chief Financial Officer. Mr. Eichorn has served the Alliance since August 1998, when he joined as Senior Vice President/Regional Operations. He was named Chief Financial Officer in January 1999. As Senior Vice President/Chief Financial Officer, he is responsible for all of the financial operations and services of the Alliance as well as managed care and physician operation activities for the Alliance. Prior to joining the Alliance, he was employed by Covenant Health/Fort Sanders Health System in Knoxville, Tennessee in various positions over a 14 year period including Executive Vice President/Non-Hospital Operations and Executive Vice President/Chief Financial Officer. Mr. Eichorn is a Certified Public Accountant and is a member of various health care and finance organizations. His educational background includes a bachelor's degree in finance from the University of West Florida and a master's degree in business administration from Milligan College. In 2000, Mr. Eichorn received the Meritorious Service Award for an Executive Staff member from the Tennessee Hospital Association. He also serves on the board or key committees of various national and regional healthcare related organizations.

Candace Jennings (58) **-** Senior Vice President for Tennessee Operations. Ms. Jennings joined the Alliance in 2007 as Vice President and Chief Operating Officer for Washington County, Tennessee operations. Her current responsibilities include the strategy development and operation of the Alliance's eight Tennessee hospitals, including a critical access hospital (Johnson County Community Hospital), a children's hospital (Niswonger Children's Hospital) and a new, LEED certified hospital, Franklin Woods Community Hospital which opened in July 2010. Prior to joining Mountain States Health Alliance, she was Chief Nursing Officer for St. John's Hospital in Springfield, Illinois. As a consultant with Ernst and Young, she led organizations through transformational change specializing in organizational resizing and patient focused care. She has served as a health care leader for over 20 years in tertiary teaching hospitals in Alabama, Texas, Illinois and Tennessee. Her educational background includes bachelors and master's degrees in Nursing and a master's in Health Services Administration from the University of Alabama at Birmingham (UAB). Ms. Jennings has been a Fellow in ACHE since 2001.

Ann Fleming (64) – Senior Vice President of Virginia Operations and System Cardiovascular and Oncology Strategic Service Units. Since joining the Alliance in March 2007, Ms. Fleming has served as an examiner for the Tennessee Center for Performance Excellence and a board member for the Senate Productivity and Quality Award. Prior to joining the Alliance, Ms. Fleming most recently served as VP Clinical Service Lines, Merrillville Hospital Administrator and Chief Nursing Officer at The Methodist Hospitals Inc., Gary and Merrillville, Indiana. As part of her work there, she launched the Cardiovascular, Oncology, Rehabilitation/Ortho/Neuro, Women's and Children Service Lines. Ms. Fleming also served as Rehabilitation Consultant at Porter Memorial Hospital, Valparaiso, Indiana, and served as an operating room nurse with the 475th MASH during Operation Desert Storm in Saudi Arabia and Iraq. She received a bachelor's degree in nursing from the University of Kentucky, and a master's degree in Public Administration from Kentucky State University. Ms. Fleming is a member of the American College of Health Care Executives, the Association of Nursing Executives and the Medical Group Management Association. She received the Army Commendation Medal in 1991. Ms. Fleming is a Registered Nurse, currently licensed in Tennessee, Kentucky, Virginia and Indiana.

Morris Seligman (56) – Senior Vice President and Chief Medical Officer. Dr. Seligman joined the Alliance in January 2010, and has responsibility on a system-wide basis for Medical Staff Services, Graduate Medical Education, Continuing Medical Education, Patient Resource Management (case management), Clinical Research, Accreditation, Infection Prevention, Patient Safety, Quality, Information Systems, Telecommunications, and Clinical Informatics. Prior to joining the Alliance, Dr. Seligman was employed by Trinity Regional Health System Quad Cities-Senior Affiliate of Iowa Health System, Illinois and Iowa, where he served as the Chief Medical Officer and Vice President for Physician Services. Dr. Seligman is a diplomat of the American Board of Quality Assurance Utilization Review Physicians, a Fellow of the American Institute of Healthcare Quality certified in Healthcare Quality Management (CHCQM), a Fellow of the American College of Physicians (FACP), a Fellow of the American College of Healthcare Executives (FACHE), and a Certified Physician Executive (CPE). Dr. Seligman also has a two year degree in Engineering Sciences. Dr. Seligman is a board certified internist by training and has practiced Internal Medicine, Emergency Medicine and Occupational Medicine. Dr. Seligman received his MD from the University of Missouri-Columbia and his BSBA/MBA from Washington University. Dr. Seligman also earned his CPA Certificate and previously worked at Arthur Andersen & Co.

John Schario (54), Senior Vice President, Consumer Health Services/Innovation. Prior to joining the Alliance in July 2011, Mr. Schario most recently served as Chief Executive Officer of Nueterra Holdings LLC, a privately held health care equity and management company that specializes in acquiring and developing ambulatory surgery centers, surgical hospitals and physical therapy centers. Under Mr. Schario's leadership, the company grew from nine surgical facilities to 62 surgical facilities and 30 physical therapy clinics over a ten year period. Prior to Mr. Schario's involvement with Nueterra, he held various junior and senior level management positions over a twenty-one year period with Health Midwest, a large integrated health care system in Kansas City. These positions included leadership of various business development enterprises, including mobile services, clinical outreach services, diagnostic imaging services, and employer health services. During his tenure with Health Midwest, he also served as administrator of a small, rural hospital and Vice President of the large, flagship tertiary hospital with responsibilities for cardiology, neurology, radiology, laboratory, pharmacy, physical therapy, occupational therapy and respiratory therapy. Mr. Schario holds bachelors and master's degrees from Rockhurst University in Kansas City.

SERVICE AREA, MARKET SHARE AND COMPETITION

Patient Origin

The Alliance operates hospital facilities located in the Counties of Washington, Sullivan, Carter, and Johnson in the northeastern region of Tennessee. In the southwestern region of Virginia, the Alliance operates facilities in the Counties of Smyth, Wise, Dickenson, Russell and Washington, and in the City of Norton. The core service area for the Alliance (the "Core Service Area") consists of Washington, Sullivan, Carter, Johnson, Greene, Hawkins, and Unicoi Counties in Tennessee and Smyth, Russell, Wise (including the City of Norton), Dickenson, Scott, and Washington Counties (including Bristol City) in Virginia. Approximately 93.2% of the Alliance's discharges originated from the Core Service Area for the fiscal year ended June 30, 2011. The patient origin analysis from all service areas (i.e., both the Core Service Area and the Non-Core Service Area, as defined below) as a percent of the Alliance's discharges for fiscal years 2008, 2009, 2010 and 2011 is presented in the following table:

Alliance Facilities Patient Origin
By Fiscal Year (June 30)

	2008		2009		2010		2011	
	Discharges	Percent	Discharges	Percent	Discharges	Percent	Discharges	Percent
Core Counties								
Washington, TN	16,455	30.3%	15,196	26.6%	16,167	26.9%	16,920	27.4%
Sullivan, TN	8,092	14.9	7,312	12.8	7,753	12.9	7,732	12.5
Carter, TN	6,625	12.2	5,884	10.3	6,371	10.6	6,762	10.9
Wise, VA [1]	4,453	8.2	4,170	7.3	4,327	7.2	4,224	6.8
Greene, TN	2,661	4.9	2,514	4.4	2,644	4.4	2,547	4.1
Smyth, VA	2,498	4.6	3,485	6.1	3,606	6.0	3,707	6.0
Unicoi, TN	2,172	4.0	1,942	3.4	1,863	3.1	2,094	3.4
Johnson, TN	2,009	3.7	1,771	3.1	1,923	3.2	1,914	3.1
Hawkins, TN	1,738	3.2	1,542	2.7	1,503	2.5	1,539	2.5
Russell, VA	1,303	2.4	3,142	5.5	3,306	5.5	3,134	5.1
Dickenson, VA	1,195	2.2	1,200	2.1	1,442	2.4	1,479	2.4
Scott, VA	923	1.7	914	1.6	902	1.5	943	1.5
Washington, VA [2]	760	1.4	4,170	7.3	4,207	7.0	4,595	7.4
Core Subtotal	50,886	93.7%	53,242	93.2%	56,015	93.2%	57,590	93.2%
Non-Core Subtotal	2,444	4.5%	2,856	5.0%	3,005	5.0%	2,874	4.6%
Other Areas Subtotal	978	1.8%	1,028	1.8%	1,082	1.8%	1,360	2.2%
Total	54,307	100.0%	57,127	100.0%	60,102	100.0%	61,824	100.0%

Source: The Alliance – Fiscal year data excludes normal newborns. Acquired facilities have been included from date of acquisition forward.
(1) Includes City of Norton, Virginia, data.
(2) Includes City of Bristol, Virginia, data.

The Alliance has a strong extended market encompassing numerous counties in northeastern Tennessee, western North Carolina, southwestern Virginia, and southeastern Kentucky (the "Non-Core Service Area" and, together with the Core Service Area, the "Service Area"), as shown in the map in "Service Areas and Facility Locations" below. As the table above shows, approximately 4.6% of discharges for the fiscal year ended June 30, 2011, were from the Non-Core Service Area, and approximately 2.2% of discharges were from beyond the Service Area. With the addition of Smyth County Community, Norton Community, Dickenson Community, Russell, and Johnston Memorial, the percentage of discharges from Virginia has increased. The Alliance is also a referral center for numerous advanced services such as high-risk obstetrics, perinatology, neonatology, cardiology, oncology and medical surgeries (including transplants and laparoscopies), and therefore serves many patients from outside the Service Area.

Service Area Facilities

The principal competitor of the Alliance in the Core Service Area is Wellmont Health System ("Wellmont"), which operates eight hospitals within the Alliance's Core Service Area: Holston Valley Medical Center, in Kingsport, Tennessee; Bristol Regional Medical Center, in Bristol, Tennessee; Hawkins County Memorial Hospital, in Rogersville, Tennessee; Lonesome Pine Hospital, in Big Stone Gap, Virginia; Mountain View Regional Medical Center, in Norton, Virginia; Hancock County Hospital, in Sneedville, Tennessee; Takoma Regional Hospital, in Greeneville, Tennessee; and Lee Regional Medical Center, in Pennington Gap, Virginia. Certain operating statistics for the facilities of the Alliance and Wellmont located within Tennessee are set forth below:

Core Service Area - Tennessee Hospitals
Facility Information and Selected Utilization Data – Fiscal 2011

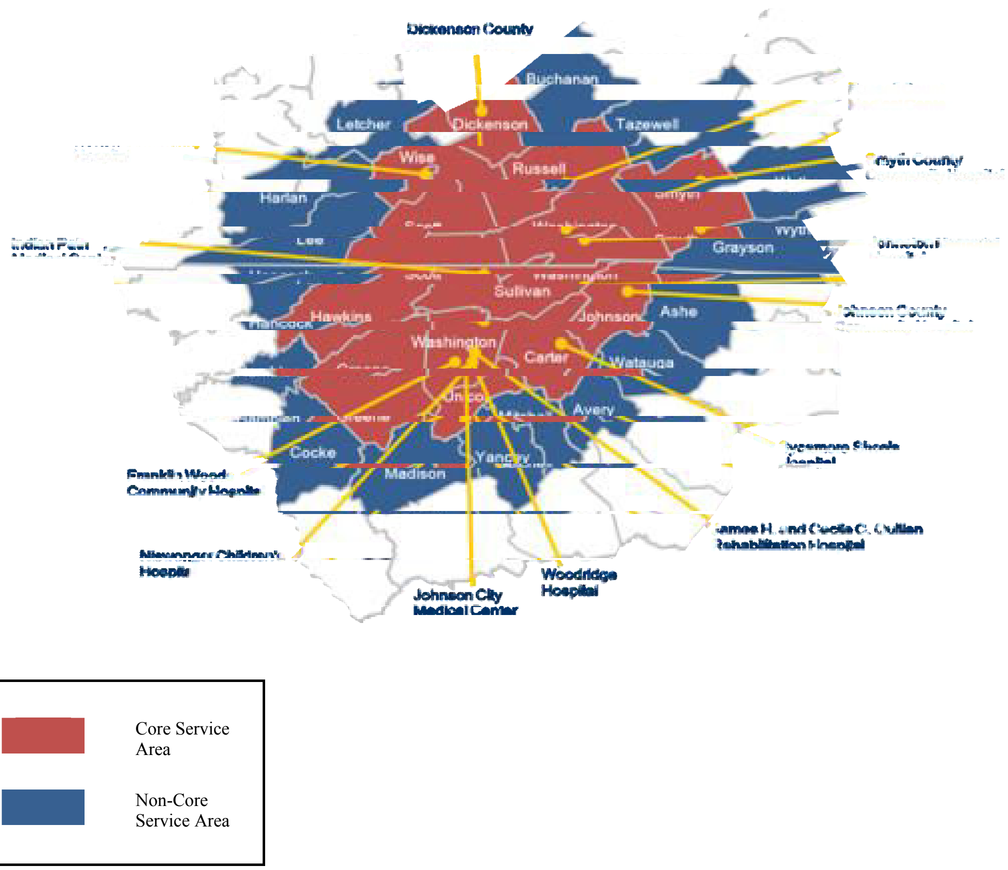
	County in Tennessee	Licensed Beds	Staffed Beds	Total Discharges	Total Patient Days	Average Daily Census
Mountain States Health Alliance						
Johnson City Medical Center	Washington	514	514	26,111	133,256	365
Quillen Rehabilitation Hospital	Washington	60	60	654	8,453	23
Woodridge Hospital	Washington	84	84	3,412	19,827	54
Franklin Woods Community Hospital	Washington	80	80	4,431	24,785	68
Indian Path Medical Center	Sullivan	261	189	6,823	29,534	81
Sycamore Shoals Hospital	Carter	121	79	3,640	15,299	42
Johnson County Community Hospital	Johnson	2	2	20	43	0
MSHA Subtotal		**1,122**	**1,008**	**45,091**	**231,197**	**633**
Wellmont Health System						
Holston Valley Medical Center	Sullivan	505	339	19,931	91,756	251
Bristol Regional Medical Center	Sullivan	312	261	15,293	66,214	181
Hawkins County Memorial Hospital	Hawkins	50	46	1,603	5,153	14
Hancock County Hospital	Hancock	10	10	245	808	2
Takoma Regional Hospital	Greene	100	100	2,494	11,508	32
Wellmont Subtotal		**977**	**756**	**39,566**	**175,439**	**480**
Other Core Service Area Facilities						
Laughlin Memorial Hospital	Greene	140	140	3,813	16,131	44
Healthsouth Rehabilitation Hospital	Sullivan	50	50	947	14,500	40
Unicoi County Memorial Hospital	Unicoi	48	15	1,214	4,568	13
Other Core Service Area Facilities		**238**	**205**	**5,974**	**35,199**	**96**
Core Service Area Total		**2,337**	**1,969**	**90,631**	**441,835**	**1,209**

Source: 2011 Tennessee Joint Annual Reports.

Service Areas and Facility Locations

The Alliance's Core and Non-Core Service Areas are depicted in the map set forth below:

Mountain States Health Alliance
Service Area



Market Share

Market share represents the proportion of service area residents discharged from each of the service area hospitals. Market share by hospital for the defined service area was calculated using data published by the Tennessee Hospital Association, the Virginia Hospital and Healthcare Association and the North Carolina Hospital Association. Hospital specific discharges are divided by service area specific discharges to estimate market share for each of the service area hospitals.

The Alliance maintains the largest market share of its core service area, capturing over 52.6% of the market for the calendar year ended 2011. Wellmont's facilities had a market share for the same period of approximately 37.0%. The following tables present calendar years 2007, 2008, 2009, 2010 and 2011, Core Service Area and total Service Area market share information for facilities currently owned or controlled by the Alliance and Wellmont.

Core Service Area Market Share Summary

System	Hospital Name	Calendar 2007 Discharges	Calendar 2007 % of Total	Calendar 2008 Discharges	Calendar 2008 % of Total	Calendar 2009 Discharges	Calendar 2009 % of Total	Calendar 2010 Discharges	Calendar 2010 % of Total	Calendar 2011 Discharges	Calendar 2011 % of Total
MSHA	Johnson City Medical Center	24,427	24.3%	25,095	24.9%	25,168	25.9%	25,048	25.8%	23,996	24.7%
	Indian Path Medical Center	5,340	5.3	5,867	5.8	5,526	5.7	6,035	6.2	5,970	6.1
	Sycamore Shoals Hospital	4,031	4.0	3,724	3.7	3,206	3.3	3,225	3.3	3,556	3.7
	Franklin Woods Community Hospital	3,106	3.1	2,655	2.6	2,384	2.5	2,683	2.8	3,920	4.0
	Johnson County Community Hospital	40	0.0	44	0.0	31	0.0	24	0.0	26	0.0
	Smyth County Community Hospital	2,139	2.1	2,113	2.1	2,164	2.2	1,958	2.0	1,664	1.7
	Norton Community Hospital	4,793	4.8	4,139	4.1	3,980	4.1	3,636	3.8	3,696	3.8
	Dickenson Community Hospital	757	0.8	366	0.4	7	0.0	2	0.0	1	0.0
	Russell County Medical Center	2,270	2.3	2,242	2.2	2,298	2.4	2,099	2.2	1,993	2.0
	Johnston Memorial Hospital	4,979	4.9	5,656	5.6	5,496	5.6	5,534	5.7	6,400	6.6
MSHA Total		51,882	51.5%	51,901	51.4%	50,260	51.7%	50,244	51.8%	51,222	52.6%
Wellmont	Wellmont Holston Valley Medical Center	16,556	16.4	16,057	15.9	16,260	16.7	16,724	17.3	16,308	16.7
	Wellmont Bristol Regional Medical Center	12,288	12.2	12,676	12.6	12,455	12.8	12,831	13.2	12,827	13.2
	Wellmont Lonesome Pine Hospital	2,745	2.7	2,656	2.6	2,181	2.2	2,005	2.1	1,785	1.8
	Wellmont Hawkins County Memorial Hospital	1,699	1.7	1,778	1.8	1,639	1.7	1,521	1.6	1,419	1.5
	Wellmont Hancock County Hospital	11	0.0	9	0.0	10	0.0	10	0.0	9	0.0
	Takoma Regional Hospital	2,227	2.2	2,320	2.3	2,093	2.2	1,827	1.9	1,939	2.0
	Lee Regional Medical Center	136	0.1	151	0.1	153	0.2	146	0.2	127	0.1
	Mountain View Regional Medical Center	1,880	1.9	2,058	2.0	1,597	1.6	1,601	1.7	1,605	1.6
Wellmont Total		37,542	37.3%	37,705	37.4%	36,388	37.4%	36,665	37.8%	36,019	37.0%
All Other		11,271	11.2%	11,272	11.2%	10,628	10.9%	10,022	10.3%	10,076	10.4%
Grand Total		100,695	100.0%	100,878	100.0%	97,276	100.0%	96,931	100.0%	97,317	100.0%

Source: Tennessee Hospital Association, the Virginia Hospital and Healthcare Association, and the North Carolina Hospital Association.
Notes:
Information based on calendar year and excludes normal newborns, psych, substance abuse, and rehab.
Acquired facilities are fully included retrospectively.
JCMC, Quillen, and Woodridge are reported together as "Johnson City Medical Center" because they operate under a single license.
Franklin Woods reflects historical values for North Side Hospital and Johnson City Specialty Hospital prior to June 2010.

Total Service Area Market Share Summary

System	Hospital Name	Calendar 2007 Discharges	Calendar 2007 % of Total	Calendar 2008 Discharges	Calendar 2008 % of Total	Calendar 2009 Discharges	Calendar 2009 % of Total	Calendar 2010 Discharges	Calendar 2010 % of Total	Calendar 2011 Discharges	Calendar 2011 % of Total
MSHA	Johnson City Medical Center	25,677	17.2%	26,404	17.6%	26,472	18.2%	26,259	18.3%	25,213	17.6%
	Indian Path Medical Center	5,547	3.7	6,091	4.1	5,711	3.9	6,242	4.4	6,162	4.3
	Sycamore Shoals Hospital	4,048	2.7	3,736	2.5	3,214	2.2	3,239	2.3	3,576	2.5
	Franklin Woods Community Hospital	3,133	2.1	2,686	1.8	2,398	1.7	2,714	1.9	3,941	2.8
	Johnson County Community Hospital	40	0.0	46	0.0	31	0.0	24	0.0	26	0.0
	Smyth County Community Hospital	2,417	1.6	2,348	1.6	2,399	1.7	2,197	1.5	1,855	1.3
	Norton Community Hospital	5,085	3.4	4,337	2.9	4,174	2.9	3,807	2.7	3,887	2.7
	Dickenson Community Hospital	765	0.5	369	0.2	7	0.0	2	0.0	1	0.0
	Russell County Medical Center	2,563	1.7	2,478	1.7	2,587	1.8	2,368	1.7	2,237	1.6
	Johnston Memorial Hospital	5,342	3.6	6,094	4.1	5,978	4.1	5,928	4.1	6,820	4.8
MSHA Total		54,617	36.5	54,589	36.4	52,971	36.5	52,780	36.8	53,718	37.6
Wellmont	Wellmont Holston Valley Medical Center	18,504	12.4	17,984	12.0	18,155	12.5	18,723	13.1	18,453	12.9
	Wellmont Bristol Regional Medical Center	13,160	8.8	13,831	9.2	13,696	9.4	14,102	9.8	14,180	9.9
	Wellmont Lonesome Pine Hospital	3,377	2.3	3,266	2.2	2,681	1.8	2,421	1.7	2,215	1.5
	Wellmont Hawkins County Memorial Hospital	1,808	1.2	1,866	1.2	1,704	1.2	1,597	1.1	1,487	1.0
	Wellmont Hancock County Hospital	375	0.3	360	0.2	303	0.2	243	0.2	202	0.1
	Takoma Regional Hospital	2,358	1.6	2,441	1.6	2,219	1.5	1,935	1.3	2,056	1.4
	Lee Regional Medical Center	2,768	1.9	2,509	1.7	2,370	1.6	2,398	1.7	2,172	1.5
	Mountain View Regional Medical Center	1,977	1.3	2,132	1.4	1,652	1.1	1,661	1.2	1,661	1.2
Wellmont Total		44,327	29.6%	44,389	29.6%	42,780	29.5%	43,080	30.0%	42,426	29.6%
All Other		50,651	33.9%	51,003	34.0%	49,314	34.0%	47,553	33.2%	46,974	32.8%
Grand Total		149,595	100.0%	149,981	100.0%	145,065	100.0%	143,413	100.0%	143,118	100.0%

Source: Tennessee Hospital Association, the Virginia Hospital and Healthcare Association, and the North Carolina Hospital Association.
Notes:
JCMC, Quillen, and Woodridge are reported together as “Johnson City Medical Center” because they operate under a single license.
Franklin Woods reflects historical values for North Side Hospital and Johnson City Specialty Hospital prior to June 2010.

Demographic and Socio-Economic Characteristics of the Service Area

The following table provides information on major employers in the region:

Major Employers in the PSA/SSA

Rank	Employer	Headquarters	Estimated Employees	Industry
1	K-VA-T Food Stores	Abingdon, VA	12,810	Retail Supermarkets
2	Mountain States Health Alliance	Johnson City, TN	9,036	Health Care
3	Wellmont Health System	Kingsport, TN	7,087	Health Care
4	Eastman Chemical Co.	Kingsport, TN	7,000	Manufacturer
5	East Tennessee State University	Johnson City, TN	2,330	Higher Education
6	James H. Quillen VA Medical Center	Mountain Home, TN	2,000	Gov't Health Care Facility
7	Sullivan County Dept. of Ed	Blountville, TN	1,646	Public Education
8	Citi Cards	Gray, TN	1,500	Retail/Call Center
9	Advanced Call Center Technologies	Berwyn, PA	1,389	Call Center
10	Washington County Dept. of Ed	Jonesborough, TN	1,300	Public Education
11	Hawkins County Board of Ed	Rogersville, TN	1,200	Public Education
12	DTR Tennessee, Inc.	Midway, TN	1,150	Manufacturer
13	A.O. Smith	Johnson City, TN	1,120	Manufacturer
14	Kingsport City Schools	Kingsport, TN	1,050	Public Education
15	Frontier Health	Johnson City, TN	983	Health Care

Source: The Business Journal of Tri-Cities/Virginia, Book of Lists, 2011

SOURCES OF REVENUE

Patient service payments are made to the Alliance by commercial insurance carriers, the federal government under the Medicare program, the State of Tennessee under the TennCare program and surrounding states under their Medicaid programs. The table below shows the percentage of gross patient revenues received by the Alliance from each program and from private pay.

Gross Patient Revenues by Source of Payment (Payor Mix)

	Audited Fiscal Years Ended June 30				Unaudited Fiscal Year Ended June 30
	2008	**2009**	**2010**	**2011**	**2012**
Medicare	41.3%	42.0%	43.4%	43.7%	44.1%
TennCare/Medicaid	15.3	15.0	14.2	13.7	14.1
Managed Care/ Commercial and Other	36.4	35.7	34.2	34.2	33.3
Private Pay	7.0	7.3	8.2	8.4	8.5
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: The Alliance.

Medicaid and Medicare

Approximately 44% and 14% of the gross patient service charges of the Alliance for the fiscal year ended June 30, 2012, were derived from the Medicare and TennCare/Medicaid programs, respectively. Medicare provides certain health care benefits to beneficiaries who generally are 65 years of age and older, are long term disabled, or qualify for the end stage renal disease ("ESRD") program. Medicare Part A covers, among other things, inpatient hospital services, skilled nursing care, hospice and some home health care. Medicare Part B covers, among other things, physician services, outpatient hospital services and some supplies. TennCare/Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid.

TennCare/Medicaid

The State of Tennessee transferred a portion of its Medicaid program to a managed care program ("TennCare") under a Section 1115 Waiver effective January 1, 1994. The long term care and ESRD Medicaid programs were not transferred to TennCare. The TennCare program also covers a number of uninsured non-Medicaid beneficiaries.

Medicare

Medicare pays acute care hospitals for most services provided to inpatients under a payment system known as the Prospective Payment System ("PPS"). Separate PPS payments are made for inpatient operating costs and inpatient capital costs.

Inpatient Operating Costs. Under PPS, acute care hospitals are reimbursed for inpatient operating costs on a per-discharge basis at fixed rates established for identified Diagnosis Related Groups ("DRGs"). DRG classification is based on the diagnosis at discharge and major procedures and other factors for each particular Medicare patient. The amount to be paid for each DRG is established prospectively by the Centers for Medicare and Medicaid Services ("CMS"), an agency of the United States Department of Health and Human Services ("HHS"), and is not related to a hospital's actual costs. For certain Medicare beneficiaries who have unusually costly hospital stays (referred to as "outliers"), CMS will provide additional payments above those specified for the DRG.

The prospective payment rate is updated annually based upon the hospital "market basket" index, which generally measures changes in the cost of providing health care services. Future adjustments are subject to change by Congress. There is no assurance that these or any future increases in the prospective payment rates will keep pace with the increases in the cost of providing hospital services.

CMS reviews and publishes changes in the DRG classification system at least annually. This process is intended to ensure that each DRG is clinically coherent and represents an acceptable range of resource consumption. There is no assurance that the Alliance will be paid amounts which will reflect adequately changes in the cost of providing health care or in the cost of health care technology being made available to patients.

Costs of Medical Education. Medicare pays for certain direct and indirect costs associated with medical education. Payment for the indirect costs of medical education will be made as an adjustment to the federal rate for capital-related costs during the transition to PPS for inpatient capital-related costs. The indirect medical education adjustment for capital-related costs is based in part on the ratio of a hospital's number of full-time equivalent ("FTE") residents to its average daily census. Medicare also adjusts the inpatient operating PPS payment for indirect costs of medical education. This adjustment is based in part on the ratio of FTE residents to beds. Payment for direct medical education is based on a per resident rate adjusted by inflation and the number of current-year reimbursable resident positions.

Disproportionate Share. Section 402 of the Medicare Prescription Drug, Improvement, and Modernization Act (MMA) provided for payments to hospitals serving a large number of low-income patients which qualifies them for a Medicare Disproportionate Share ("DSH") payment adjustment. Payment is based on the SSI% plus Medicaid Eligible Patient Days to Total Patient Days. There is no assurance in the future that the Alliance will be paid amounts to adequately offset the cost of providing services to low income patients to Acute and Rehabilitation services.

Costs of Outpatient Services. Ambulatory payment classifications ("APCs") form the basis for outpatient PPS. Services in each APC are similar clinically and with respect to the resources necessary to provide the services. Generally, the primary classification variable under the APC system is the procedure performed rather than the patient's diagnosis, as is the case with the DRG system. Each APC is assigned a payment rate based on median (or, if the Secretary of HHS so chooses, mean) hospital costs for procedures performed, weighted by procedure volume. Beneficiary coinsurance amounts are established for each APC based on 20 percent of the national median of charges for APC services. The APC payment and beneficiary's coinsurance amounts for outpatient services will be adjusted to reflect geographic wage variations and other factors determined to be necessary by the Secretary of HHS. Annual payment updates are based on the hospital market basket index. As with inpatient hospital services, there is no assurance that future increases in the prospective payment rates will reflect adequately the changes in the costs of providing outpatient services.

Costs of Inpatient Rehabilitation Facilities (IRF). Under IRF PPS, Federal rates are adjusted to reflect patient case mix, resource intensity associated with the patients clinical condition, and facility characteristics. Cases are grouped into case-mix groups (CMGs) and are further classified into four tiers driven by conditions that are secondary to the principal diagnosis. Rates are paid to reflect all costs of furnishing IRF services for routine, ancillary, and capital. There is no assurance that the alliance will be paid amounts that will sufficiently match all costs associated with care.

Costs of Psychiatric Facilities (IPF). Under the IPF PPS, services are reimbursed under Federal Per Diem rates to include Operating and Capital costs. Payment is based on geographic factors, patient characteristics (DRG, age, length of stay and presence of specified comorbidities), facility characteristics, and services for received in a qualified Emergency Department and also Electroconvulsive Therapy.

Costs of Skilled Nursing Facilities. Medicare reimbursed for skilled nursing facility ("SNF") stays are also based on a prospective payment system which requires "bundling" of virtually all SNF services, similar to the current practice for hospital inpatient services. A SNF therefore is responsible for providing or arranging to provide all Medicare services (subject to certain exceptions) needed by a SNF patient, and could potentially receive less than it costs the SNF to provide or arrange to provide those services. Accordingly, there can be no assurance that the aggregate amount of payments under SNF PPS will be sufficient to cover all of the Alliance's actual costs of providing SNF services to Medicare beneficiaries.

Physician Services. Physicians are reimbursed under Medicare based on their professional services according to the lesser of the actual charge or the amount determined from a resource-based relative value scale (RBRVS) fee schedule. The fee schedule is subject to update by the Secretary of HHS and Congress on an annual basis.

Electronic Health Records (EHR) Costs. The American Recovery Act of 2009 provides for incentive payments for Medicare and Medicaid eligible professionals and hospitals to purchase and implement meaningful use certified EHR technology. Payments provide an incentive for the "meaningful use" of certified EHR technology and to achieve health care and efficiency goals. The incentive payment will be paid out over a period of 5 years, which offsets the costs of purchase and implementation of the products. There is no indication that future rule making will extend payments beyond the five years.

Audits, Exclusions, Fines and Enforcement Action. Hospitals participating in Medicare are subject to audits and retroactive audit adjustments by a Medicare Audit Contractor under the Medicare program. From an audit, a Medicare Audit Contractor may conclude, for example, that a patient has been discharged under an incorrect DRG, that services may not have been provided under the direct supervision of a physician (to the extent so required), that a patient should not have been characterized as an inpatient, that certain services provided prior to an admission as an inpatient should not have been billed as outpatient services or that certain required procedures or processes were not satisfied. As a consequence, payments may be retroactively disallowed. Under certain circumstances, payments made may be determined to have been made as a consequence of improper claims subject to the federal False Claims Act or other federal statutes, subjecting the hospital to civil or criminal sanctions. Generally, the Alliance maintains limited reserves for anticipated or proposed audit adjustments which are likely to be contested. Nevertheless, such adjustments may exceed such reserves and may be substantial. Medicare regulations also provide for withholding Medicare payment in certain circumstances, and such withholdings could have a substantial adverse effect on the financial condition of the Alliance.

Management of the Alliance is not aware of any situation in which reserves are inadequate or a material amount of Medicare payments is being withheld. The Alliance utilizes internal and external resources to review and audit practice compliance with policies, procedures, applicable laws and regulations. Whenever such reviews identify practice deviation from policies, procedures, applicable rules and regulations, management is obligated to refund any overpayments as part of the Alliance's continuous improvement processes. Currently, management is unaware of any deviations that may have a material adverse effect on the results of the operations or financial condition of the Alliance.

Commercial Managed Care and Other

The Alliance contracts with certain private third party payors. Contractual agreements with these payors include reimbursement arrangements such as discounted charges, per diem amounts and capitated payments. The Alliance actively manages these contracts and negotiates terms that are in the best interest of the Alliance and its patients. While not participating in all commercial contracts, the Alliance participates in the vast majority of contracts covering the population of its primary service area.

Additionally, the Alliance treats patients with no insurance coverage. Those meeting certain income requirements are treated at no cost to the patient. Those not qualifying for this classification are classified as "self-pay" and reimburse the Alliance privately for the services rendered.

HISTORICAL UTILIZATION INFORMATION

The table below provides historic system-wide patient utilization for the Alliance for the fiscal years ended June 30, 2008 through 2012. The number reflects the inclusion of the following facilities as of the following dates: Smyth County Community - 11/1/06; Norton Community - 11/1/07; Dickenson Community - 11/1/07; Russell - 1/31/08; and Johnston Memorial - 4/1/09.

	2008	2009	2010	2011	2012
Occupancy Rate (licensed)	49%	45%	46%	47%	48%
Patient Days	268,965	283,555	291,986	288,167	292,910
Admissions	54,307	57,127	60,102	61,035	61,154
Average Daily Census	735	777	800	789	800
Avg Length of Stay (days)	5.0	5.0	4.9	4.7	4.8
Outpatient Visits	1,239,440	1,511,699	1,604,036	1,546,325	1,592,335
ER Visits	190,771	219,983	250,942	242,677	246,821
Surgical Cases	35,988	38,812	39,313	38,521	36,971
Births	4,270	4,371	4,684	4,511	4,288
Newborn Days	8,504	8,569	9,112	9,287	9,116
Licensed Beds	1,699	1,841	1,789	1,749	1,623

Source: The Alliance.

CONDENSED SUMMARY OF REVENUE AND EXPENSES; FINANCIAL STATEMENTS

The following Condensed Summary of Revenue and Expenses (the "Condensed Summary") for each of the five Fiscal Years ended June 30, 2007 through 2011, is derived from the Alliance's audited financial statements for those Fiscal Years. The annual financial statements were audited by Pershing Yoakley & Associates, P.C. The financial information for the twelve month period ended June 30, 2012, is unaudited and reflects, in the opinion of the Alliance, all adjustments necessary to summarize fairly the results for such period on a basis consistent with that used in preparing the annual financial statements for the years ended June 30, 2007, 2008, 2009, 2010, and 2011. The financial statements include the assets and liabilities and reflect the revenue and expenses of the Alliance and all consolidated entities, including those that are not Obligated Issuers.

The Condensed Summary as well as the audited financial statements included in Appendix B and the unaudited financial statements included as Appendix C are for all entities consolidated with the Alliance for accounting purposes (the "Consolidated Entities") and therefore reflect the assets, liabilities, revenues and expenses of entities that are not Obligated Issuers (see "THE ALLIANCE" in the front half of this Official Statement). For the fiscal year ended June 30, 2012, the Obligated Issuers accounted for approximately 74% of the total assets and 89% of the total revenue of the Consolidated Entities.

The following Condensed Summary of Consolidated Revenue and Expenses should be read in conjunction with the audited financial statements and notes contained in Appendix B hereto.

Condensed Summary of Revenue and Expenses

	Audited Fiscal Years Ended June 30 (In Thousands)					(Unaudited) Fiscal Year Ended June 30 (In Thousands)
	2007	**2008**	**2009**	**2010**	**2011**	**2012**[9]
Revenues:						
Net patient service revenue	$661,744	$726,542	$822,898	$928,270	$960,254	$950,946
Other revenue	16,711	16,098	17,046	16,009	15,871	37,559
Total Revenue, Gains and Support	678,455	742,640	839,944	944,279	976,125	988,504
Expenses:						
Operating expenses	580,059	633,842	719,193	806,379	822,962	860,249
Depreciation and Amortization	49,807	60,048	68,523	81,559	90,058	75,055
Interest and Taxes	44,387	44,581	45,225	42,264	44,153	45,903
Total Expenses	674,252	738,471	832,941	930,202	957,173	981,207
Operating Income (loss)	4,203	4,169	7,003	14,077	18,952	7,297
Net non-operating gains (losses)[1]	67,184[2]	(74,343)[3]	(89,683)[4]	30,598[5]	67,710[6]	26,622[7]
Excess of Revenue, Gains and Support Over Expenses and Losses[8]	$ 71,387	$ (70,174)	$ (82,680)	$ 44,675	$86,662	$33,919

Source: The Alliance.

(1) Net non-operating gains and losses include the change in fair value of derivatives and realized and unrealized gains and losses on investments. Recent clarification to generally accepted accounting principles require the unrealized gains and losses on certain investments to be included as part of the Excess of Revenue, Gains and Support over Expenses and Losses and such approach was used for the audited financial statements for fiscal years 2008, 2009, 2010 and 2011, and unaudited 2012. For ease of comparison, management has reclassified such unrealized gains and losses for fiscal year 2007 in a manner consistent with the clarification.

(2) Includes $2.1 million of unrealized gains on derivatives.

(3) Includes $20.6 million of unrealized losses on derivatives, and $57.7 million loss on early extinguishment of debt and $33.4 million of unrealized losses on investments.

(4) Includes $42.1 million of unrealized losses on derivatives and $62.6 million of unrealized losses on investments.

(5) Includes $8.6 million of unrealized losses on derivatives, and $15.0 million of unrealized gains on investments.

(6) Includes $23.0 million of unrealized gains on derivatives and $22.2 million of unrealized gains on investments.

(7) Includes $6.2 million of unrealized losses on derivatives and $2.9 million of unrealized losses on investments.

(8) An entry was posted in the 2008, 2009, 2010, 2011 and 2012 financial statements to eliminate certain employee health related patient service revenue and employee benefits expense (approximately $12.9 million in 2008, $14.9 million in 2009, $20.0 million in 2010, $23.1 million in 2011, and $23.3 million in 2012). The eliminating entry had no effect on the Excess of Revenue, Gains and Support Over Expenses and Losses in these periods. The 2007 financial data does not reflect this eliminating entry.

(9) In Fiscal 2012, the Alliance early adopted Financial Accounting Standards Board Update 2011-07, which requires reclassification of bad debt expense from an operating expense to a deduction from patient service revenue. For 2012, bad debt of $7.057 million is classified as a deduction from net revenue and for all years prior to 2012, bad debt is classified as an operating expense. In Fiscal 2012, revenue of $5.611 million related to durable medical equipment and retail pharmacy is included in other revenue. Prior to 2012, this revenue was included in net patient service revenues.

TRENDS IN UNRESTRICTED LIQUIDITY AND LEVERAGE

The following table provides information on unrestricted liquidity and leverage for the fiscal years ended June 30, 2007 through 2012.

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Unaudited Fiscal 2012
Total Unrestricted Cash ($ in Thousands)	$452,225	$466,478	$515,066	$551,608	$592,537	$531,151
Total Days' Cash on Hand	264	246	249	240	253	214
Unrestricted Net Assets ($ in Thousands)	$416,850	$349,081	$272,049	$317,433	$400,395	$436,330
Net Long Term Debt to Capitalization[1]	53.6%	68.0%[2]	74.7%	71.2%	67.5%	65.4%

(1) For purposes of calculating the ratio, Net Long-Term Debt is determined net of debt service reserve funds and moneys held in principal and interest funds.

(2) The increase in Net Long Term Debt to Capitalization in Fiscal Year 2008 was due in part to the $57.7 million loss on early extinguishment of debt. The Net Long Term Debt to Capitalization, excluding the loss on early extinguishment of debt, was 65.1%.

MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE

Overview

The Alliance has maintained a positive operating income for each of the last six fiscal years, reflecting rises in net patient service revenues that have generally kept pace with increases in expenses. However, non-operating losses from derivatives and other investments resulted in deficits of revenue, gains, and support over expenses for Fiscal 2008 and 2009. The losses from derivatives are discussed further below. The losses from other investments resulted from losses in market value reflecting primarily the general market decline in the value of securities in the Alliance's investment portfolio. Beginning in Fiscal 2007, operating income or losses for recent acquisitions is included (Fiscal 2007: Smyth County - 8 months, Fiscal 2008: Norton/Dickenson – 8 months and Russell 5 months, Fiscal 2009: Johnston Memorial – 3 months).

Fiscal 2010

Operating Income for Fiscal 2010 was $14.077 million compared with $7.003 million for the same period in Fiscal 2009. This produced an "Operating Margin" (excess of total revenue, gains and support over total expense divided by total revenue, gains and support) of 1.5%, compared with 0.8% for the same period in Fiscal 2009. This reflected among other things increases in revenues and expenses resulting from the addition of Johnston Memorial (April, 2009) that are included for a full year in the Fiscal 2010 but included for only three months in Fiscal 2009. Moreover, net non-operating gains of $30.598 million, reflecting primarily $24.083 million of income realized from investments, $15.018 million of unrealized income from investments, and $8.607 million in losses derived from interest rate swaps and derivatives, produced a $44.675 million excess of revenue, gains and support over expenses.

Fiscal 2011

Operating Income for Fiscal 2011 was $18.952 million compared with $14.077 million for the same period in Fiscal 2010. The Operating Margin for Fiscal 2011 was 1.9%, compared with 1.5% for the same period in Fiscal 2010. Moreover, net non-operating gains of $67.710 million, reflecting primarily $23.214 million of income realized from investments, $22.168 million of unrealized income from investments, and $23.049 million in gains derived from interest rate swaps and derivatives, produced an $86.662 million excess of revenue, gains and support over expenses.

Fiscal 2012 (Unaudited)

Operating Income for Fiscal 2012 was $7.297 million compared with $18.952 million for the same period in Fiscal 2011. The Operating Margin for Fiscal 2012 was 0.7%, compared with 1.9% for the same period in Fiscal 2011. Moreover, net non-operating gains of $26.622 million, reflecting primarily $27.938 million of income realized from investments, $2.921 million of unrealized losses from investments, and $6.198 million in losses derived from interest rate swaps and derivatives, produced a $33.919 million excess of revenue, gains and support over expenses.

Net patient revenue in Fiscal 2012 declined $9.3 million as compared to Fiscal 2011. This decline in net patient revenue is mainly attributable to a decline in surgical admissions and a decreased length of stay for commercial patients. Operating expenses in Fiscal 2012 increased $37.3 million as compared to Fiscal 2011. The increase in operating expenses is mainly due to an increase in expenses related to physician salaries and fees. Days Cash on Hand declined from 253 days in Fiscal 2011 to 214 days for Fiscal 2012. The Alliance had anticipated Days Cash on Hand to decrease by 21 days due to planned capital expenditures. The additional 18 day decline is due to the decrease in operating income and an increase in net accounts receivable.

Interest Rate Swaps and Derivatives

The Alliance has utilized several forms of derivative financial instruments, including interest rate swaps, constant maturity swaps and total return swaps, in order to lower the cost of debt and reduce interest rate risk.

As of June 30, 2012, the Alliance had a total of approximately $592,400,000 (notional amount) of total return swaps, basis swaps, and constant maturity basis swaps with Bank of America, which swaps have been implemented as part of a carefully managed program. Through this program, the Alliance has realized approximately $43,800,000 of savings since 2001. In January and May of 2011, the Alliance "locked in" approximately $16,000,000 of future cash payments through April 2014 on $438,000,000 (notional amount) of the constant maturity basis swaps. In January 2011, the Alliance converted two fixed payor swaps, totaling $132,000,000 (notional amount), to basis swaps. As of June 30, 2012, the market value of all these swaps was a negative $14,490,000 with no collateral currently posted to Bank of America.

Additionally, the Alliance has $106,000,000 (notional amount) of total return and fixed payor swaps with Lehman Brothers Special Financing, Inc. ("Lehman"). As of June 30, 2012, the Alliance had posted $13,800,000 of collateral under the Lehman swap agreements. In the fall of 2008, the Alliance was notified by Lehman that these transactions were going to be terminated as of January 1, 2009. The termination did not occur, due to a dispute between counterparties regarding the amount of the cost of the termination. The Alliance believes that the amount of the collateral that has been posted is sufficient to pay the cost of the termination. Since late 2011, the counterparties have been involved in mediation to settle the termination amount.

In 2003 and 2004, the Alliance implemented $224,400,000 (notional amount) of swaptions with Bear Stearns Capital Markets, now J.P. Morgan, as part of a synthetic refunding of its Series 2000 outstanding debt. The Alliance also entered into two forward sale agreements originally related to the Series 2000 Debt Service Reserve Fund and Debt Service Funds. Amounts received by the Alliance as upfront payments on the swaptions and related forward sale agreements were deposited in a guaranteed investment contract ("GIC") with Bear Stearns, now J.P. Morgan, that served as collateral under the related agreements. On October 13, 2011, the Alliance terminated the swaptions using the entire proceeds of the GIC. No additional funds of the Alliance were utilized. On June 29, 2012, the Alliance terminated the forward sale agreements. There are no remaining derivatives or forward sale agreements with J.P. Morgan.

Additional Indebtedness

Other than the surgical services improvements at JCMC, the Alliance has no significant capital expenditures planned or in process for the near future. Funding for the surgical services project is expected to come from cash flow and the proceeds of this bond issue. Other capital improvements are expected to be funded from cash flow.

APPENDIX B

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

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MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Schedules)

Years Ended June 30, 2011 and 2010

PYA

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements and Supplemental Schedules

Years Ended June 30, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mountain States Health Alliance:

We have audited the accompanying consolidated balance sheets of Mountain States Health Alliance and subsidiaries (the Alliance) as of June 30, 2011 and 2010 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Alliance's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain States Health Alliance and subsidiaries as of June 30, 2011 and 2010 and the results of their operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules, as listed in the accompanying index, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

As discussed in Note B, the Alliance adopted Financial Accounting Standards Board Accounting Standards Codification 958-10, *Consolidation,* and applicable portions of 958-805, *Not-for-Profit Entities*, during 2011.

Pershing Yoakley & Associates PC

Knoxville, Tennessee
October 26, 2011

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30, 2011	June 30, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 112,768**	$ 234,526
Current portion of investments	**116,175**	25,092
Patient accounts receivable, less estimated allowances for uncollectible accounts of $53,366 in 2011 and $45,941 in 2010	**134,611**	125,580
Other receivables, net	**19,614**	17,926
Inventories and prepaid expenses	**28,965**	29,163
TOTAL CURRENT ASSETS	**412,133**	432,287
INVESTMENTS, less amounts required to meet current obligations	**581,376**	590,131
PROPERTY, PLANT AND EQUIPMENT, net	**797,418**	695,598
OTHER ASSETS		
Goodwill - Note B	**148,666**	151,352
Net deferred financing, acquisition costs and other charges, less current portion	**29,844**	30,819
Other assets	**28,448**	29,313
TOTAL OTHER ASSETS	**206,958**	211,484
	$ 1,997,885	$ 1,929,500

	June 30, 2011	June 30, 2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	$ **20,047**	$ 16,039
Current portion of long-term debt and capital lease obligations	**28,162**	28,131
Current portion of estimated fair value of derivatives	**102,609**	10,740
Accounts payable and accrued expenses	**98,819**	99,227
Accrued salaries, compensated absences and amounts withheld	**57,800**	47,280
Estimated amounts due to third-party payors, net	**14,813**	10,155
TOTAL CURRENT LIABILITIES	**322,250**	211,572
OTHER LIABILITIES		
Long-term debt and capital lease obligations, less current portion	**1,040,923**	1,054,842
Estimated fair value of derivatives, less current portion	**8,123**	123,560
Deferred revenue	**19,267**	20,445
Estimated professional liability self-insurance	**9,692**	9,541
Other long-term liabilities	**14,352**	12,628
TOTAL LIABILITIES	**1,414,607**	1,432,588
COMMITMENTS AND CONTINGENCIES - Notes D, F, G, and N		
NET ASSETS		
Unrestricted net assets		
Mountain States Health Alliance	**400,395**	317,485
Noncontrolling interests in subsidiaries - Note B	**171,984**	168,359
TOTAL UNRESTRICTED NET ASSETS	**572,379**	485,844
Temporarily restricted net assets		
Mountain States Health Alliance	**10,715**	10,890
Noncontrolling interests in subsidiaries - Note B	**57**	51
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**10,772**	10,941
Permanently restricted net assets	**127**	127
TOTAL NET ASSETS	**583,278**	496,912
	$ **1,997,885**	$ 1,929,500

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations
(Dollars in Thousands)

	Year Ended June 30, 2011	2010
Revenue, gains and support:		
Net patient service revenue	$ **960,254**	$ 928,270
Other operating revenue	**15,871**	16,009
TOTAL REVENUE, GAINS AND SUPPORT	**976,125**	944,279
Expenses:		
Salaries and wages	**342,208**	325,663
Physician salaries and wages	**59,249**	54,489
Contract labor	**5,964**	6,546
Employee benefits	**67,139**	68,362
Fees	**85,919**	82,542
Supplies	**169,362**	175,469
Utilities	**17,300**	16,193
Other	**69,647**	69,154
Depreciation	**87,499**	68,436
Amortization - Note B	**2,559**	13,123
Estimated provision for bad debts	**6,174**	7,961
Interest and taxes	**44,153**	42,264
TOTAL EXPENSES	**957,173**	930,202
OPERATING INCOME	**18,952**	14,077
Nonoperating gains (losses):		
Interest and dividend income	**16,224**	17,298
Net realized gains on the sale of securities	**1,957**	2,385
Net unrealized gains on securities	**22,168**	15,018
Derivative related income	**5,072**	4,394
Loss on early extinguishment of debt - Note F	**-**	(3,029)
Change in estimated fair value of derivatives	**23,049**	(8,607)
Other nonoperating gains (losses)	**(2,653)**	512
Net assets released from restrictions used for operations	**1,893**	2,627
NET NONOPERATING GAINS	**67,710**	30,598
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ **86,662**	$ 44,675

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets
(Dollars in Thousands)

Year Ended June 30, 2011

	Mountain States Health Alliance	*Noncontrolling Interests*	*Total*
UNRESTRICTED NET ASSETS:			
Excess of Revenue, Gains and Support over Expenses and Losses	$ 83,269	$ 3,393	$ 86,662
Pension and other defined benefit plan adjustments	620	617	1,237
Cumulative effect of a change in accounting principle - Note B	(2,965)	-	(2,965)
Net assets released from restrictions used for the purchase of property, plant and equipment	1,946	-	1,946
Distributions to noncontrolling interests	-	(270)	(270)
Repurchases of noncontrolling interests and other	40	(115)	(75)
INCREASE IN UNRESTRICTED NET ASSETS	82,910	3,625	86,535
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	3,612	58	3,670
Net assets released from restrictions	(3,787)	(52)	(3,839)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(175)	6	(169)
INCREASE IN TOTAL NET ASSETS	82,735	3,631	86,366
NET ASSETS, BEGINNING OF YEAR	328,502	168,410	496,912
NET ASSETS, END OF YEAR	$ 411,237	$ 172,041	$ 583,278

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets - Continued
(Dollars in Thousands)

Year Ended June 30, 2010

	Mountain States Health Alliance	*Noncontrolling Interests*	*Total*
UNRESTRICTED NET ASSETS:			
Excess of Revenue, Gains and Support over Expenses and Losses	$ 42,372	$ 2,303	$ 44,675
Pension and other defined benefit plan adjustments	796	793	1,589
Net assets released from restrictions used for the purchase of property, plant and equipment	2,283	-	2,283
Distributions to noncontrolling interests	-	(151)	(151)
Repurchases of noncontrolling interests and other	(63)	(38)	(101)
INCREASE IN UNRESTRICTED NET ASSETS	45,388	2,907	48,295
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	3,585	88	3,673
Net assets released from restrictions	(4,825)	(85)	(4,910)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(1,240)	3	(1,237)
PERMANENTLY RESTRICTED NET ASSETS:			
Net assets released from restrictions by donor	(50)	-	(50)
INCREASE IN TOTAL NET ASSETS	44,098	2,910	47,008
NET ASSETS, BEGINNING OF YEAR	284,404	165,500	449,904
NET ASSETS, END OF YEAR	$ 328,502	$ 168,410	$ 496,912

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	**$ 86,366**	$ 47,008
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for depreciation and amortization	**90,472**	81,982
Loss on early extinguishment of debt	**-**	3,029
Cumulative effect of a change in accounting principle	**2,965**	-
Change in estimated fair value of derivatives	**(23,049)**	8,607
Equity in net income of joint ventures, net	**(898)**	(1,117)
Gain on sale of assets held for resale and disposal of assets	**(367)**	(548)
Amounts received on interest rate swap settlements	**(5,072)**	(4,394)
Income recognized through forward sale agreements	**(864)**	(864)
Capital Appreciation Bond accretion and other	**2,738**	2,071
Restricted contributions	**(3,670)**	(2,159)
Pension and other defined benefit plan adjustments	**(1,237)**	598
Increase (decrease) in cash due to change in:		
Net patient accounts receivable	**(9,031)**	3,232
Other receivables	**(2,802)**	(1,246)
Inventories and prepaid expenses	**(643)**	(4,640)
Trading securities	**(123,966)**	(13,368)
Other assets	**(3,632)**	(1,159)
Accrued interest payable	**4,008**	3,989
Accounts payable and accrued expenses	**2,741**	(855)
Accrued salaries, compensated absences and amounts withheld	**11,361**	(2,289)
Estimated amounts due from/to third-party payors, net	**4,658**	3,757
Other long-term liabilities	**2,961**	(201)
Estimated professional liability self-insurance	**151**	(471)
Total adjustments	**(53,176)**	73,954
NET CASH PROVIDED BY OPERATING ACTIVITIES	**33,190**	120,962
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment, property held for resale and property held for expansion, net	**(172,786)**	(172,240)
Additions to goodwill	**(279)**	-
Net decrease in assets limited as to use	**81,383**	50,362
Purchases of held-to-maturity securities	**(41,060)**	(28,175)
Net distribution from joint ventures and unconsolidated affiliates	**1,057**	1,162
Proceeds from sale of property, plant and equipment and property held for resale	**812**	9,565
NET CASH USED IN INVESTING ACTIVITIES	**(130,873)**	(139,326)

	Year Ended June 30, 2011		2010
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on long-term debt and capital lease obligations, including deposits to escrow	**(37,735)**		(226,315)
Payment of acquisition and financing costs	**(1,716)**		(3,565)
Proceeds from issuance of long-term debt and other financing arrangements	**5,954**		235,158
Net amounts received on interest rate swap settlements	**5,072**		4,394
Restricted contributions received	**4,350**		3,382
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**(24,075)**		13,054
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(121,758)**		(5,310)
CASH AND CASH EQUIVALENTS, beginning of year	**234,526**		239,836
CASH AND CASH EQUIVALENTS, end of year	**$ 112,768**	$	234,526

	2011		2010
SUPPLEMENTAL INFORMATION AND NON-CASH TRANSACTIONS:			
Cash paid for interest	**$ 39,507**	$	38,666
Cash paid for federal and state income taxes	**$ 739**	$	446
Construction related payables in accounts payable and accrued expenses	**$ 11,384**	$	14,847
Property purchased through capital lease arrangement	**$ 15,951**	$	-
Increase in receivable from sale of property	**$ -**	$	1,483
Decrease in land held for expansion related to property exchange transaction	**$ -**	$	3,432
Land held for expansion placed in use	**$ 4,904**	$	-

During the year ended June 30, 2010, the Alliance refinanced previously issued debt of $184,050.

NOTE A--ORGANIZATION AND OPERATIONS

Mountain States Health Alliance (the Alliance) is a tax-exempt entity with operations primarily located in Washington, Sullivan, and Carter counties of Tennessee and Smyth, Wise, Dickenson, Russell and Washington counties of Virginia. The initial funds for the establishment of the Alliance in 1945 were provided by individuals and various institutions. Membership of the Alliance consists of individuals and institutions who have contributed at least $100 to the capital fund of the Alliance and are entitled to vote at the annual election of the Board of Directors.

The primary operations of the Alliance consist of ten acute and specialty care hospitals, as follows:

- Johnson City Medical Center (JCMC) - licensed for 658 beds
- Smyth County Community Hospital (SCCH) - licensed for 279 beds
- Indian Path Medical Center (IPMC) - licensed for 261 beds
- Norton Community Hospital (NCH) - licensed for 129 beds
- Sycamore Shoals Hospital (SSH) - licensed for 121 beds
- Johnston Memorial Hospital (JMH) - licensed for 116 beds
- Franklin Woods Community Hospital (FWCH) - licensed for 80 beds
- Russell County Medical Center (RCMC) - licensed for 78 beds
- Dickenson Community Hospital (DCH) - licensed for 25 beds
- Johnson County Community Hospital (JCCH) - licensed for 2 beds

FWCH opened in July 2010, replacing operations at North Side Hospital (NSH) and Johnson City Specialty Hospital (JCSH). NSH and JCSH were licensed for 91 beds and 23 beds, respectively, prior to the opening of FWCH and a total of 64 beds were transferred within the Alliance.

The Alliance has a 50.1% interest in JMH. JMH is also the sole member of Abingdon Physician Partners (APP), a non-taxable corporation that owns and manages physician practices.

The Alliance has a 50.1% interest in NCH. NCH is also the sole member or shareholder of DCH and Norton Community Physician Services, LLC (NCPS), a taxable corporation that consists of physician practices and a pharmacy and; Community Home Care (CHC), a taxable corporation that provides home medical equipment.

The Alliance has an 80% interest in SCCH. SCCH is the sole shareholder of Southwest Community Health Services, Inc. (SWCH), a taxable entity that operates a pharmacy and provides other health services.

The activities and accounts of JMH, NCH and SCCH are included in the accompanying consolidated financial statements.

NOTE A--ORGANIZATION AND OPERATIONS - Continued

The Alliance is the sole shareholder of Blue Ridge Medical Management Corporation (BRMM), a for-profit entity that owns and manages physician practices and provides other healthcare services to patients in Tennessee and Virginia. BRMM also operates as a medical office real estate developer by owning, selling and leasing real estate to physician practices and other entities. BRMM is either the sole shareholder, a significant shareholder, or member of the following organizations:

Mountain States Physician Group, Inc. (MSPG): A company that contracts with physicians to provide services to BRMM physician practices.

Mountain States Properties, Inc. (MSPI): An entity that owns and manages certain real estate (primarily medical office buildings) and provides rehabilitation and fitness services. In addition, MSPI is a counter-party to various financing transactions, including interest rate swaps.

Mediserve Medical Equipment of Kingsport, Inc. (Mediserve): A company that provides durable medical equipment services.

Synergy Health Group LLC: An affiliation of member hospitals that work together to maximize cost savings opportunities through aggregated buying power.

Kingsport Ambulatory Surgery Center (KASC) (d.b.a. Kingsport Day Surgery): A joint venture operating as an outpatient surgery center which performs procedures primarily in otolaryngology, orthopedics, ophthalmology, and general surgery. BRMM has a 43% ownership of KASC at June 30, 2011 and 2010; however, BRMM maintains control over KASC through a management agreement. As such, the accounts and activities of KASC are included in the accompanying consolidated financial statements.

Piney Flats Urgent Care (PFUC): A for-profit entity that provides urgent care patient services. BRMM has a 75% ownership of PFUC. The accounts and activities of PFUC are included in the accompanying consolidated financial statements.

The Alliance is the primary beneficiary of the activities of Mountain States Foundation, Inc. (MSF), a not-for-profit foundation formed to coordinate fundraising and development activities of the Alliance. The Alliance is also the beneficiary of the Mountain States Health Alliance Auxiliary (Auxiliary), a not-for-profit organization formed to coordinate volunteer activities of the Alliance. The activities and accounts of MSF and the Auxiliary are included in the accompanying consolidated financial statements.

The Alliance is a majority shareholder of Integrated Solutions Health Network, LLC (ISHN). The primary function of ISHN is to establish, operate and administer a provider-sponsored health care

NOTE A--ORGANIZATION AND OPERATIONS - Continued

delivery network. The accounts and activities of ISHN are included in the accompanying consolidated financial statements.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Alliance and its subsidiaries after elimination of all significant intercompany accounts and transactions. The Alliance classifies those activities directly associated with its mission of providing healthcare services, as well as other activities deemed significant to its operations, as operating activities.

Noncontrolling Interests in Subsidiaries: Noncontrolling interests represent the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent organization. Effective July 1, 2010, the Alliance adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-810, *Consolidation.* ASC 958-810 amends the accounting for, and the financial statement presentation of, noncontrolling interests in a subsidiary within consolidated financial statements. ASC 958-810 requires that a noncontrolling interest in the net assets of a subsidiary be accounted for and reported as net assets and provides revised guidance on the treatment of income and losses attributable to the noncontrolling interest and changes in ownership interests in a subsidiary.

The Alliance adopted ASC 958-810 during 2011 and reclassified $168,410 of noncontrolling interests from minority interest to net assets as of June 30, 2010. These amounts are reflected net of distributions and pension and other defined benefit plan adjustments within net assets in the Consolidated Balance Sheets. The Alliance attributed an Excess of Revenue, Gains and Support over Expenses and Losses of $3,393 and $2,303 for the years ending June 30, 2011 and 2010, respectively, to the noncontrolling interests in JMH, NCH, SCCH, KASC, PFUC and ISHN based on the noncontrolling interests' respective ownership percentage. None of the noncontrolling interests include redemption features.

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents: Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents designated as assets

limited as to use or uninvested amounts included in investment portfolios are not included as cash and cash equivalents on the Consolidated Balance Sheets.

Investments: Investments as reported in the Consolidated Balance Sheets include trading securities, held-to-maturity securities and assets limited as to use (Note C). FASB ASC 958-320, *Investments – Debt and Equity Securities*, allows not-for-profit organizations to report in a manner similar to business entities by identifying securities as available-for-sale or held-to-maturity and to exclude the unrealized gains and losses on those securities from the Performance Indicator (as defined below). Investments which the Alliance has the positive intent and ability to hold to maturity are considered as held-to-maturity. Substantially all other investments (including assets limited as to use) are considered as trading securities. Management annually evaluates the held-to-maturity investment portfolio and recognizes any "other-than-temporary" losses as deductions from the Performance Indicator. Management's evaluation considers the amount of decline in fair value, as well as the time period of any such decline. Management does not believe any investment classified as held-to-maturity is other-than-temporarily impaired at June 30, 2011.

Within the trading securities portfolio, all debt securities and marketable equity securities with readily determinable fair values are reported at fair value based on quoted market prices. Investments without readily determinable fair values are reported at estimated fair market value pursuant to FASB ASC 825, *Financial Instruments*. Guaranteed investment contracts are reported at contract value.

Realized gains and losses on trading securities and assets limited as to use are computed using the specific identification method for cost determination. Interest and dividend income is reported net of related investment fees.

Investments in joint ventures are reported under the equity method of accounting, which approximates the Alliance's equity in the underlying net book value, unless the ownership structure requires consolidation. Other assets include investments in joint ventures of $2,367 and $2,418 at June 30, 2011 and 2010, respectively.

Inventories: Inventories, consisting primarily of medical supplies, are stated at the lower of cost or market.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost, or if donated, at the fair value at the date of gift. Generally, depreciation is computed by the straight-line method over the estimated useful life of the asset. Equipment held under capital lease obligations is amortized under the straight-line method over the shorter of the lease term or estimated useful life.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Amortization of building and equipment held under capital lease is shown as a part of depreciation expense and accumulated depreciation in the accompanying consolidated financial statements.

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The amount capitalized is net of investment earnings on assets limited as to use derived from borrowings designated for capital assets. Renewals and betterments are capitalized and depreciated over their useful life, whereas costs of maintenance and repairs are expensed as incurred.

The Alliance reviews capital assets for indications of potential impairment when there are changes in circumstances related to a specific asset. If this review indicates that the carrying value of these assets may not be recoverable, the Alliance estimates future cash flows from operations and the eventual disposition of such assets. If the sum of these undiscounted future cash flows is less than the carrying amount of the asset, a write-down to estimated fair value is recorded. The Alliance did not recognize any impairment losses during 2011 and 2010.

Other assets include property held for resale and property held for expansion of $4,230 and $9,135, respectively, at June 30, 2011 and 2010. During 2011, property held for expansion totaling approximately $4,905 was transferred to property, plant and equipment in conjunction with the construction of FWCH. Property held for resale and property held for expansion primarily represent land contributed to, or purchased by, the Alliance plus costs incurred to develop the infrastructure of such land. Management annually evaluates its investment and records non-temporary declines in value when it is determined the ultimate net realizable value is less than the recorded amount. No such declines were identified in 2011 and 2010.

Goodwill: Goodwill represents the difference between the acquisition cost of assets and the estimated fair value of net tangible and any separately identified intangible assets. Prior to July 1, 2010, the Alliance amortized goodwill associated with its not-for-profit subsidiaries under the straight-line method over various estimated useful lives ranging from 10 to 25 years. However, effective July 1, 2010, ASC 958-805, *Not-for-Profit Entities*, requires the not-for-profit entities within the Alliance to cease amortization of goodwill, perform a transitional impairment test and perform annual impairment testing in the future.

As a result of its transitional impairment testing as of July 1, 2010, management determined that approximately $2,965 of goodwill associated with one of its reporting units was impaired, and such impairment has been reflected as the Cumulative Effect of a Change in Accounting Principle in the 2011 Consolidated Statement of Changes in Net Assets. Based upon this transitional testing, management does not believe any remaining goodwill acquired by its not-for-profit entities to be

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

impaired. The reporting unit for evaluation of substantially all such goodwill is the Alliance's aggregate acute-care operations.

For goodwill acquired by its for-profit subsidiaries, the Alliance does not amortize goodwill and annually performs impairment testing. Based upon this annual impairment testing, management has determined that there is no impairment related to goodwill associated with its for-profit subsidiaries.

Deferred Financing, Acquisition Costs and Other Charges: Other assets, including deferred financing, acquisition costs and other charges, total $29,844 and $30,819 at June 30, 2011 and 2010, respectively. Deferred financing costs are amortized over the life of the respective bond issue principally using the average bonds outstanding method. Other intangible assets include licenses and similar assets and are being amortized over the intangible's estimated useful life under the straight-line method.

Prior to 2009, the Alliance routinely financed interest rate swap and other derivative transaction issuance costs through modification of future settlement terms. As such, the unamortized issuance costs of these derivatives are included as deferred financing costs in the accompanying Consolidated Balance Sheets and are being amortized over the term of the respective derivative instrument. The unpaid issuance costs are included as a part of the estimated fair value of derivatives in the accompanying Consolidated Balance Sheets. Beginning in 2009, interest rate swap and derivative transaction issuance costs are expensed as incurred.

Derivative Financial Instruments: As further described in Note D, the Alliance is a party to interest rate swap and other derivative agreements. These financial instruments are not designated as hedges and have been presented at estimated fair market value in the accompanying Consolidated Balance Sheets as either current or long-term liabilities, based upon the remaining term of the instrument. Changes in the estimated fair value of these derivatives are included in the Consolidated Statements of Operations as part of nonoperating gains (losses). Net settlements and other related income of derivatives are also reflected as a part of the Performance Indicator (described below).

These fair values are based on the estimated amount the Alliance would receive, or be required to pay, to enter into equivalent agreements at the valuation date. The fair value of various derivatives are netted on the Consolidated Balance Sheets based on management's evaluation of the settlement provisions in the master contract. Gross positions of these derivatives are disclosed in Note D. Due to the nature of these financial instruments, such estimates of fair value are subject to significant change in the near term.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Self-insurance liabilities include estimated reserves for reported and unreported professional liability claims (Note G) and are recorded at the estimated net present value of such claims. Other long-term liabilities include contributions payable and obligations under deferred compensation arrangements, a defined

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

benefit pension plan, a post-retirement employee benefit plan as well as other liabilities which management estimates are not payable within one year.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts, 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 Alliance's revenue recognition policies related to self-pay and other types of payors emphasize revenue recognition only when collections are reasonably assured.

Patient accounts receivable are reported net of both an estimated allowance for uncollectible accounts and an estimated allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid, TennCare and other third-party payment programs. Current operations include a provision for bad debts in the Consolidated Statements of Operations estimated based upon the age of the patient accounts receivable, prior experience and any unusual circumstances (such as local, regional or national economic conditions) which affect the collectibility of receivables, including management's assumptions about conditions it expects to exist and courses of action it expects to take.

The Alliance's policy does not require collateral or other security for patient accounts receivable. The Alliance routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Charity Care: The Alliance accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Alliance and various guidelines outlined by the Federal Government. These policies define charity as those services for which no payment is anticipated and, as such, charges at established rates are not included in net patient service revenue.

In addition to the charity care services described above, the Alliance provides a number of other services to benefit the poor for which little or no payment is received. Medicare, Medicaid, TennCare and State indigent programs do not cover the full cost of providing care to beneficiaries of those programs. The Alliance also provides services to the community at large for which it receives little or no payment.

Excess of Revenue, Gains and Support Over Expenses and Losses: The Consolidated Statements of Operations and the Consolidated Statements of Changes in Net Assets includes the caption *Excess of*

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue, Gains and Support Over Expenses and Losses (the Performance Indicator). Changes in unrestricted net assets which are excluded from the Performance Indicator, consistent with industry practice, include contributions of long-lived assets or amounts restricted to the purchase of long-lived assets, pension and related adjustments, and distributions to, or contributions from, owners and transactions with noncontrolling interests.

Income Taxes: The Alliance is classified as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been made in the accompanying consolidated financial statements for the Alliance and its tax-exempt subsidiaries. Taxable entities account for income taxes in accordance with FASB ASC 740, *Income Taxes* (Note L). The Alliance has no significant uncertain tax positions at June 30, 2011 and 2010.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor or time restriction expires; that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Consolidated Statements of Operations and Consolidated Statements of Changes in Net Assets as net assets released from restrictions. Permanently restricted net assets have been restricted by donors to be maintained by the Alliance in perpetuity.

Fair Value Measurement: The Alliance had previously adopted FASB ASC 820, *Fair Value Measurements and Disclosures,* which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements.

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 requires new disclosures regarding significant transfers in and out of Levels 1 and 2, as well as information about activity in Level 3 fair value measurements, including presenting information about purchases, sales, issuances and settlements on a gross versus a net basis in the Level 3 activity roll forward. In addition, ASU 2010-06 clarifies existing disclosures regarding input and valuation techniques, as well as the level of disaggregation for each class of assets and liabilities. The Alliance adopted ASU 2010-06 in 2011, except for the disclosures related to purchases, sales, issuance and settlements, which will be effective for the Alliance beginning July 1, 2012. The adoption of ASU 2010-06 did not, and is not expected to, have an impact on the Alliance's consolidated financial statements.

Subsequent Events: The Alliance evaluated all events or transactions that occurred after June 30, 2011, through October 26, 2011, the date the consolidated financial statements were available to be

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

issued. During this period management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2011 consolidated financial statements, other than as discussed in Notes D, F and S.

New Accounting Pronouncements: In August 2010, the FASB issued Accounting Standards Update (ASU) 2010-23, *Health Care Entities – Measuring Charity Care for Disclosure.* ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost, identified as the direct and indirect costs of providing the charity care, be used as the measurement basis for disclosure purposes. ASU 2010-23 also requires disclosure of the method used to identify or determine such costs. The Hospital will adopt ASU 2010-23 in fiscal year 2012. Management does not expect the adoption of ASU 2010-23 to have a material impact on the consolidated financial statements.

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities – Presentation of Insurance Claims and Related Insurance Recoveries.* The amendments in the ASU clarify that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. ASU 2010-24 is effective for the Alliance beginning July 1, 2011 and management is currently evaluating the impact of this ASU on the consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07, *Healthcare Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Healthcare Entities*, which will require certain healthcare entities to reclassify the provision for bad debts associated with providing patient care from an operating expense to a deduction from net patient service revenue in the Consolidated Statements of Operations. Additionally, ASU 2011-07 requires enhanced disclosures about an entity's policies for recognizing revenue and assessing bad debts and qualitative and quantitative information about changes in the allowance for doubtful accounts. The Alliance intends to adopt ASU 2011-07 in fiscal year 2013. Management does not expect the adoption of ASU 2011-07 to have a material impact on the consolidated financial statements.

Reclassifications: Certain 2010 amounts have been reclassified to conform with the 2011 presentation in the accompanying consolidated financial statements.

NOTE C--INVESTMENTS

Assets limited as to use are summarized by designation or restriction as follows at June 30:

(Dollars in Thousands)

NOTE C--INVESTMENTS - Continued

	2011	2010
Designated or restricted:		
Under safekeeping agreements	$ 28,349	$ 52,050
Under guarantee agreements	92,720	89,486
By Board for capital improvements	4	2,776
Under bond indenture agreements:		
For debt service and interest payments	67,874	78,612
For capital acquisitions	28,835	76,241
	217,782	299,165
Less: amount required to meet current obligations	(116,175)	(25,092)
	$ 101,607	$ 274,073

Assets limited as to use consist of the following at June 30:

	2011	2010
Cash, cash equivalents and money market funds	$ 115,579	$ 170,897
U.S. Government securities	1,795	1,795
U.S. Agency securities	7,688	12,319
Guaranteed investment contracts	92,720	114,154
	$ 217,782	$ 299,165

Trading securities consist of the following at June 30:

	2011	2010
Cash, cash equivalents and money market funds	$ 29,159	$ 4,799
U.S. Government securities	9,409	3,137
U.S. Agency securities	31,551	13,760
Corporate and foreign bonds	126,543	11,688
Municipal obligations	451	1,461
Preferred and asset backed securities	8,945	7,023
U.S. equity securities	94,834	139,168
Other	32,718	28,608
	$ 333,610	$ 209,644

(Dollars in Thousands)

NOTE C--INVESTMENTS - Continued

Held-to-Maturity securities are carried at amortized cost and consist of the following at June 30:

	2011	2010
Cash, cash equivalents and money market funds	$ 753	$ 1,131
Corporate and foreign bonds	135,745	103,968
Municipal obligations	9,661	1,315
	$ 146,159	$ 106,414

Held-to-maturity securities had gross unrealized gains and losses of $6,838 and $276, respectively, at June 30, 2011 and $5,525 and $607, respectively at June 30, 2010. At June 30, 2011, the Alliance held nine securities within the held-to-maturity portfolio with a fair value and unrealized loss of $549 and $44, respectively, which had been at an unrealized loss position for over one year. At June 30, 2010, the Alliance held one security within the held-to-maturity portfolio with a fair value and unrealized loss of $591 and $166, respectively, which had been at an unrealized loss position for over one year. At June 30, 2011, the contractual maturities of held-to-maturity securities were $13,816 due in one year or less, $55,563 due from one to five years and $76,780 due after five years. At June 30, 2010, the contractual maturities of held-to-maturity securities were $13,389 due in one year or less, $48,447 due from one to five years and $44,578 due after five years.

At June 30, 2011 and 2010, the Alliance held investments in certain limited partnerships and hedge funds of $32,718 and $28,608, respectively, that have a wide range of investment strategies with various levels of risk. These funds are included within trading securities and do not have readily determinable fair values. The funds are reported at estimated fair market value pursuant to FASB ASC 825, *Financial Instruments*.

The Alliance has investments in several joint ventures and corporations which are accounted for under the equity method of accounting.

As a part of the acquisition of membership interests in JMH, SCCH and NCH, the Alliance has committed to invest $132,000, $48,100, and $45,000, respectively. Cumulative amounts expended at June 30, 2011 under these commitments are approximately $150,184.

NOTE D--DERIVATIVE TRANSACTIONS

The Alliance is a party to a number of derivative transactions. These derivatives have not been designated as hedges and are valued at estimated fair value in the accompanying Consolidated Balance Sheets. Management's primary objective in holding such derivatives is to introduce a variable rate component into its fixed rate debt structure. Under the terms of these agreements, changes in the interest rate environment could have a significant effect on the Alliance.

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS - Continued

These derivative agreements require that the Alliance post additional collateral for the derivatives' fair market value deficits above specified levels. Such investments are included as assets limited as to use. As of June 30, 2011, management believes the Alliance was fully collateralized with respect to the derivative agreements and management does not believe such collateral is exposed to third-party credit risk. Further, certain of the agreements contain requirements regarding maintenance of financial and liquidity ratios. Management has represented the Alliance is in compliance with all such covenants at June 30, 2011.

Interest Rate Swaps: The Alliance is a party to six interest rate swap agreements with Merrill Lynch as the counterparty. The terms of five of these agreements were modified without settlement during 2011 and no gain or loss was realized. However, such modifications did impact the estimated fair value of these interest rate swaps. A liability, representing the estimated net fair value of these swaps, of $8,123 and $33,910 was recognized by the Alliance as of June 30, 2011 and 2010, respectively.

The following is a summary of five of these interest rate swap agreements at June 30, 2011:

			Payments by:		
Swap	*Notional Amount*	*Term*	*Counterparty*	*Alliance*	*Estimated Fair Value*
A	$ 170,000	4/2008-4/2026	1.265% through April 2013; 1.07% through April 2014; then 71.10% of USD-ISDA Swap Rate	0.00% through April 2014, then USD-SIFMA Municipal Swap Index	$ 3,028
B	95,000	4/2008-4/2026	1.265% through April 2013; 1.08% through April 2014; then 71.18% of USD-ISDA Swap Rate	0.00% through April 2014, then USD-SIFMA Municipal Swap Index	1,729
C	173,030	4/2008-4/2034	1.315% through April 2013; 1.12% through April 2014; then 72.35% of USD-ISDA Swap Rate	0.00% through April 2014, then USD-SIFMA Municipal Swap Index	741
D	82,055	12/2007-7/2033	1) 3.493% through July 2012; then 0% 2) USD-LIBOR-BBA through July 2012, then 67% USD-LIBOR-BBA	1) 4.41% through July 2012; then .312% 2) USD-SIFMA	(9,363)
E	50,000	2/2008-7/2038	67.00% of USD-LIBOR-BBA plus .145%	USD-SIFMA	(3,918)

Deferred financing and acquisition costs, net of amortization, include $6,480 and $6,823 at June 30, 2011 and 2010, respectively, related to these swaps.

NOTE D--DERIVATIVE TRANSACTIONS - Continued

In addition to the swaps described above, the Alliance and Merrill Lynch are also parties to a total return swap in the notional amount of $23,100 which has an estimated fair value of $(340) and $(252) at June 30, 2011 and 2010, respectively . The agreement consists of the following:

- An agreement that requires the Alliance to pay a variable rate of USD-SIFMA Municipal Swap Index through July 1, 2012 (or termination of the swap) on a notional amount equal to the outstanding 2001A Hospital Revenue and Improvement Bonds (the 2001A Reference Bonds). The Alliance receives a fixed rate of 6.25% of the outstanding 2001A Reference Bonds.

- A "total return provision" under which the Alliance will pay (or receive) an amount equal to the product of the outstanding 2001A Reference Bonds multiplied by the difference between the outstanding 2001A Reference Bonds and the 2001A Reference Bonds' market price at termination, as defined in the agreement. In the event the swap does not terminate prior to July 1, 2012, there would be no settlement of this component as there would be no outstanding 2001A Reference Bonds.

The Alliance is also party to a total return swap with Lehman Brothers as the counterparty. Lehman Brothers filed for bankruptcy in September 2008. The Alliance subsequently received notification from Lehman Brothers Special Financing, Inc. indicating the intent of the counterparty to terminate this agreement effective January 1, 2009. The Alliance and Lehman Brothers Special Financing, Inc. have been unable to reach a settlement agreement. In September 2010, the Alliance was issued a subpoena to furnish certain documentation related to the transaction. A protocol has been put into place by the bankruptcy court whereby the parties are to undergo alternate dispute resolution, including non-binding arbitration, which management anticipates will occur in 2012.

The fair value of these swaps is undeterminable at January 1, 2009, as prior to the termination date Lehman Brothers liquidated the underlying referenced securities, making a valuation not commercially viable. An estimated liability of $10,565 and $10,740 was recognized by the Alliance as of June 30, 2011 and 2010, respectively. Management believes that the liability as recorded at June 30, 2011 is sufficient to cover any exposure arising from litigation in this matter. However, it is reasonably possible management's estimate may change in the near term, although the amount of any change cannot be estimated. Due to the termination of this agreement, the estimated liability is included as a current liability in the accompanying Consolidated Balance Sheets.

A third party holds collateral with a fair market value of approximately $13,381 and $13,570, respectively, at June 30, 2011 and 2010, with respect to these Lehman derivative agreements. Such collateral is included as current assets limited as to use.

NOTE D--DERIVATIVE TRANSACTIONS - Continued

The arrangement consists of nine agreements each with three separate components (described below) with notional values of $23,600, $8,000, and $8,750 each. The swaps generally consist of the following:

- An arrangement that calls for the Alliance to pay a variable rate (SIFMA Municipal Swap Index) plus certain fixed payment amounts and receive a payment equal to the interest paid by the Alliance on a portion of its early extinguished, but still outstanding, 2000A and 2000B Hospital Mortgage Revenue Refunding Bonds (the Reference Bonds) (whose fixed rates range from 7.50% to 7.75%).

- An arrangement that requires the Alliance to pay a fixed rate of 4.211% through either July 1, 2025, 2029 or 2033 (or termination of the swap) on the outstanding Reference Bonds and receive a variable rate of 67% of USD-LIBOR-BBA on the outstanding Reference Bonds; and

- A "total return provision" under which the Alliance will pay (or receive) the difference between the outstanding Reference Bonds, multiplied by 132%, less the fair value of the Reference Bonds on the date of termination and any fixed interest payments made under the arrangements described above. In the event the swaps do not terminate prior to their stated termination dates (2025, 2029 or 2033), there would be no settlement of this component as there would be no outstanding Reference Bonds.

The swap also contains an agreement that consists of two separate components:

- An arrangement that requires the Alliance to pay a fixed rate of 2.98% through July 1, 2016 (or termination of the swap) on the outstanding, but previously defeased, 1991 Hospital Revenue and Improvement Bonds (the 1991 Reference Bonds) and receive a variable rate of 67% of USD-LIBOR-BBA on the outstanding 1991 Reference Bonds; and

- A "fixed payor provision" under which the Alliance will pay (or receive) the difference between the outstanding 1991 Reference Bonds multiplied by 100% and any fixed interest payments made as required under the agreement minus the outstanding 1991 Reference Bonds multiplied by the average market price at termination. In the event the swaps do not terminate prior to their stated termination date (2016), there would be no settlement of this component as there would be no outstanding 1991 Reference Bonds.

Interest Rate Swap Option: In June 2004, the Alliance entered into an agreement with Bear Stearns (acquired by JP Morgan) whereby Bear Stearns has purchased from the Alliance an option to enter

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS - Continued

into an interest rate swap agreement (swaption) with the Alliance on July 1, 2011, which is an optional redemption date related to the Alliance's early extinguished 2000A and 2000B Bonds (Note F). The purpose of this agreement was to effectively sell the call features related to the early extinguished Series 2000A and 2000B Bonds. As consideration under this agreement, the Alliance received a total of $42,500 in upfront payments as the swaption premium. Such amounts were initially recorded as estimated fair value of derivatives in the Consolidated Balance Sheets. Beginning 30 calendar days prior to July 1, 2011 and terminating 30 calendar days prior to July 1, 2015, the counterparty has the periodic right to exercise the swaption.

The underlying interest rate swap transactions to which the swaption transaction relates have the following terms:

Swap	*Notional Amount*	*Term*	*Payments by: Counterparty*	*Payments by: Alliance*
2000A	Ranging from $148,170 through July 1, 2018 to $23,000 through July 2033	30 days following the exercise date through July 2033	64% of USD-LIBOR-BBA	Fixed amounts ranging from 7.13% upon execution to 7.50% through July 2033, based on notional amount
2000B	Ranging from $76,240 through July 1, 2021 to $8,800 through July 2033	30 days following the exercise date through July 2033	64% of USD-LIBOR-BBA	Fixed amounts ranging from 7.54% upon execution to 8.00% through July 2033, based on notional amount

The Alliance retained the right to terminate the swaption at any time prior to May 17, 2011 at its fair market value. A liability of $92,044 and $89,650, representing the estimated fair value of the swaption at June 30, 2011 and 2010, respectively, is included in estimated fair value of derivatives in the accompanying Consolidated Balance Sheets. As a derivative financial instrument, this swaption is extremely sensitive to changes in long-term interest rates and other elements in the financial marketplace. As such, estimates of fair value are subject to significant changes in the near term.

Deferred financing and acquisition costs include $0 and $434 at June 30, 2011 and 2010, respectively, related to the costs of this transaction. The change in estimated fair value of derivatives in the accompanying Statements of Operations for 2011 and 2010 includes an unrealized loss of $2,394 and $11,628, respectively, related to this derivative.

The interest rate swap option, described above, was terminated on October 13, 2011. To effectuate this termination, the Alliance transferred a portion of a Guaranteed Investment Contract (GIC), described below, to the third party as a termination payment. A gain of approximately $3,000 was recognized on this termination.

NOTE D--DERIVATIVE TRANSACTIONS - Continued

Forward Sale Agreements: In June 2004, the Alliance entered into two related forward sale agreements with the counterparty to the swaption agreements and the Master Trustee of the Series 2000 Bonds. The forward sale agreements originally related to the Debt Service Reserve Fund and to the Debt Service Fund, respectively, (collectively, the "Funds"), as established under provisions of the Master Trust Indenture related to the issuance of the Series 2000 Bonds. In consideration of the future earnings on the Funds, the counterparty paid the Master Trustee a total of $30,000 during 2005, to be held on behalf of the Alliance. In June 2006, one of these agreements was amended to also relate to the Series 2000C, 2000D, 2006A and 2006B Bonds, and to remove the Series 2000A Bonds from consideration under the agreement. As the original intent of these Funds was to secure debt service payments under the above referenced Bonds, the agreement requires these funds to be held under a guaranty agreement as further described below.

In connection with the issuance of the Series 2007 Bonds and the derecognition of a portion of the Series 2000A Bonds, all of the outstanding Series 2000B Bonds, and all of the outstanding 2006B Bonds (Note F), one of these agreements as it relates to the Series 2000A and 2000B Bonds was partially terminated. As such, during 2008 the Alliance reduced its liability with respect to the portion related to the Series 2000A and 2000B Bonds, and paid the counterparty $6,186 under the terms of the agreement. The agreement was amended in fiscal year 2011 to include the Series 2010A Bonds and to remove the Series 2000B and 2006B Bonds.

A liability of $19,001 and $19,864 representing the unamortized payments from the counterparty is included as part of deferred revenue in the accompanying Consolidated Balance Sheets as of June 30, 2011 and 2010, respectively. Amounts are being recognized as investment income over the life of the agreements.

Pursuant to these agreements, the counterparty required that the Alliance's obligations under the swaption and forward sale agreements be collateralized under a guarantee agreement in favor of the counterparty. Due to various requirements of the Master Trust Indenture, the Alliance transferred to MSF a total of $42,500 that was in turn deposited with the counterparty as collateral in a GIC. Amounts received under the forward sale agreements were also deposited into the GIC. All GIC deposits earn interest compounded at 4.14% for the first year, and at 3.5% thereafter through July 1, 2011. The GIC deposits as of June 30, 2011 and 2010 totaled $92,720 and $89,486, respectively. The GIC was substantially utilized on October 13, 2011 to terminate the interest rate swap option agreement discussed above and, as such, is included in the current portion of assets whose use is limited in the Consolidated Balance Sheet at June 30, 2011.

NOTE E--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30:

(Dollars in Thousands)

NOTE E--PROPERTY, PLANT AND EQUIPMENT - Continued

	2011	2010
Land	$ 63,749	$ 58,037
Buildings and leasehold improvements	454,852	407,104
Property and improvements held for leasing	80,568	84,421
Equipment	532,767	479,523
Buildings and equipment held under capital lease	42,720	22,679
	1,174,656	1,051,764
Less: Allowances for depreciation and amortization	(586,471)	(569,913)
	588,185	481,851
Construction in progress (Note N)	209,233	213,747
	$ 797,418	$ 695,598

Accumulated depreciation and amortization on property and improvements held for leasing purposes is $23,348 and $21,543 at June 30, 2011 and 2010, respectively. Net interest capitalized was $10,640 and $11,117 for the years ended June 30, 2011 and 2010, respectively.

The Alliance is constructing replacement facilities for SCCH and JMH and is also performing various renovations on existing hospital facilities. During 2011 and 2010, management of the Alliance assessed the planned current and future use of the existing NSH, SCCH and JMH facilities as well as certain other facilities, and adjusted their estimated useful lives accordingly.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt and capital lease obligations consist of the following at June 30:

Description	Maturities	Rates	Outstanding Balance 2011	Outstanding Balance 2010
2010A Hospital Revenue Bonds, net of unamortized premium of $1,056 and $1,096 at June 30, 2011 and 2010, respectively	$38,660 uninsured serially, through 2020	3.00% to 5.00%	$ 169,137	$ 169,176
	$14,985 uninsured term bonds, due July 1, 2025	5.38%		
	$19,385 uninsured term bonds, due July 1, 2030	5.63%		
	$39,570 uninsured term bonds, due July 1, 2038	6.50%		
	$55,480 uninsured term bonds, due July 1, 2038	6.00%		
2010B Hospital Revenue Bonds, net of unamortized premium of $711 and $753 at June 30, 2011 and 2010, respectively	$27,330 uninsured serially, through 2020	2.50% to 5.00%	36,646	36,688
	$4,355 uninsured term bonds, due July 1, 2023	5.00%		
	$4,250 uninsured term bonds, due July 1, 2028	5.50%		
2009A Hospital Revenue Bonds, net of unamortized discount of $121 and $126 at June 30, 2011 and 2010, respectively	$725 uninsured term bonds, due July 1, 2019	7.25%	5,439	5,434
	$1,730 uninsured term bonds, due July 1, 2029	7.50%		
	$3,105 uninsured term bonds, due July 1, 2038	7.75%		

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Description	Maturities	Rates	Outstanding Balance 2011	Outstanding Balance 2010
2009B Hospital Revenue Bonds	$5,535 uninsured term bonds, due July 1, 2038	8.00%	5,535	5,535
2009C Hospital Revenue Bonds, net of unamortized discount of $2,421 and $2,508 at June 30, 2011 and 2010, respectively	$21,100 uninsured term bonds, due July 1, 2019 $20,000 uninsured term bonds, due July 1, 2029 $74,855 uninsured term bonds, due July 1, 2038	7.25% 7.50% 7.75%	113,534	113,447
2008A Hospital Revenue Bonds	$13,245 uninsured term bonds, due July 1, 2038, subject to early redemption or tender	Variable, 0.07% at June 30, 2011	13,245	13,245
2008B Hospital Revenue Bonds	$53,855 uninsured term bonds, due July 1, 2038, subject to early redemption or tender	Variable, 0.07% at June 30, 2011	53,855	54,050
2007A Hospital Revenue Bonds	Uninsured term bonds, due July 1, 2038, redeemed in 2011	NA	-	4,305
2007B Taxable Hospital Revenue Bonds, bifurcated into sub-series B-1, B-2 and B-3 during 2011	$307,900 uninsured term bonds, due July 1, 2033, subject to early redemption or tender	Variable, 0.11% to 0.16% at June 30, 2011	307,900	314,190
2007C Hospital Revenue Bonds	Uninsured term bonds, due July 1, 2032, redeemed in 2011	NA	-	1,900
2006A Hospital First Mortgage Revenue Bonds, net of unamortized premium of $147 and $153 at June 30, 2011 and 2010, respectively	$6,580 uninsured serially, through 2019 $7,375 uninsured term bonds, due July 1, 2026 $20,505 uninsured term bonds, due July 1, 2031 $135,175 uninsured term bonds, due July 1, 2036	5.00% 5.25% 5.50% 5.50%	169,782	170,473
2001A Hospital First Mortgage Revenue Bonds	$23,100 term bonds, due July 1, 2026, subject to early redemption or tender	6.85%	23,100	23,900
2001 Hospital Refunding and Improvement Revenue Bonds (NCH), net of unamortized discount of $34 and $38 at June 30, 2011 and 2010, respectively	$1,465 insured term bonds, due December 1, 2012 $1,635 insured term bonds, due December 1, 2014 $8,815 insured term bonds, due December 1, 2022	5.75% 6.00% 6.00%	11,876	12,547
2000A Hospital First Mortgage Revenue Refunding Bonds	$30,358 insured Capital Appreciation Bonds, interest and principal due July 1, 2026 through 2030	6.63%	30,358	28,417
2000C Hospital First Mortgage Revenue Bonds	$34,325 insured term bonds, due July 1, 2026	8.50%	34,325	35,335
2000D First Mortgage Taxable Bonds	$14,790 insured term bonds, due July 1, 2026	8.50%	14,790	15,225
1998 Hospital Refunding and Improvement Revenue Bonds (JMH)	$6,495 uninsured term bonds, due July 1, 2016 $7,620 uninsured term bonds, due July 1, 2028	5.25% 5.38%	14,115	15,240
Capitalized lease obligations secured by buildings and equipment	Maturing through 2027	3.18% to 13.01%	16,153	16,715
$7,500 promissory note secured by assets of Mediserve Medical Equipment of Kingsport, Inc.	Monthly principal and interest payments of $56 beginning February 2007 maturing December 2011; remaining principal due January 2012	LIBOR + 1.10%	5,473	6,064
Capitalized lease obligations secured by equipment	Various monthly payments of monthly principal and interest	Various	587	1,325
Master installment payment agreement	Paid-off in 2011	Unspecified	-	2,194
$1,409 unsecured promissory note	Monthly principal and interest payments of $23 beginning July 2008 through September 2013; remaining principal and accrued interest due October 2014; note was paid-off in 2011	LIBOR + 1.25%	-	920
$10,221 note payable secured by property	Various annual principal and interest payments through April 2013; note was paid-off in 2011	6.25%	-	7,836
$1,065 note payable secured by land	Monthly interest-only payments through October 2011; remaining principal and accrued interest due November 2011	5.50%	572	1,065
$6,332 promissory note secured by substantially all assets of the Alliance	Monthly principal payments of $35 plus accrued interest beginning July 2010 maturing June 2015; remaining principal due July 2015	LIBOR + 2.00%	5,945	6,332
$3,955 note payable secured by property	Monthly principal and interest payments of $27 beginning July 2010 maturing May 2015; remaining principal due June 2015	3.00%	3,743	3,955

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Description	Maturities	Rates	Outstanding Balance 2011	2010
Note payable under Master Financing Agreement, secured by Equipment	Monthly principal and interest payments of $166 beginning July 2010 maturing June 2017	4.62%	10,431	11,900
Note payable under Master Financing Agreement, secured by Equipment	Monthly principal and interest payments of $56 beginning July 2010 maturing June 2017	3.75%	3,580	4,100
$4,926 convertible construction loan secured by property and assigned rents	Monthly interest-only payments through January 2011 followed by monthly principal and interest payments of $25 maturing December 2014; remaining principal and accrued interest due January 2015; note was paid-off in 2011	Prime (stated minimum and maximum interest rates of 3.75% and 6.75%, respectively)	-	1,195
$1,885 line of credit secured by property	Monthly interest-only payments through March 2011 followed by monthly principal and interest payments of $9 maturing February 2015; remaining principal and accrued interest due March 2015	Prime - 0.50% (stated minimum and maximum interest rates of 3.50% and 6.25%, respectively)	1,873	265
$1,593 note payable, secured by equipment	Various annual principal payments through July 2014	Unspecified	1,593	-
Capitalized lease obligation secured by medical office building (JMH)	Maturing through 2026	9.72%	15,498	-
			1,069,085	1,082,973
	Less current portion		(28,162)	(28,131)
			$ 1,040,923	$ 1,054,842

In September 2010, in order to reduce credit risk and expenses, the Alliance replaced the existing letters of credit related to the Series 2007B, Series 2008A and Series 2008B Bonds with letters of credit held by several different financial institutions. The substitute letters of credit entitle the Master Trustee to draw amounts equal to the principal amounts of the respective series of Bonds outstanding and up to 37 days interest at a rate of 12%. The substitute letters of credit expire on September 29, 2013 unless renewed or replaced.

Series 2010 Bonds: In April 2010, the Alliance issued $168,080 (Series 2010A) and $35,935 Series 2010B fixed rate Hospital Refunding Revenue Bonds (collectively, the Series 2010 Bonds). Proceeds of the Series 2010A and the Series 2010B Bonds were used to refinance outstanding indebtedness, specifically related to the Alliance's facilities in Tennessee and in Virginia, respectively, fund debt service reserve funds and pay costs of issuance. The Alliance recognized a $3,029 loss on early extinguishment of debt representing the write off of previously deferred and unamortized financing costs related to the refinanced Series 2008A and the Series 2007A and 2007C debt issues discussed below.

Series 2009 Bonds

In March 2009, the Alliance issued $5,560 (Series 2009A), $5,535 (Series 2009B) and $115,955 (Series 2009C) fixed rate Hospital Revenue Bonds (collectively, the Series 2009 Bonds). The proceeds of Series 2009 Bonds were used to refinance a portion of the outstanding Series 2006C Taxable Notes, which were originally issued to finance a capital commitment to SCCH and purchase certain leased assets, finance the acquisition of a majority ownership in JMH, fund a debt service

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

reserve fund and pay costs of issuance. The portion of the 2006C taxable notes which were not refinanced with the Series 2009 Bonds were repaid with cash on hand.

In connection with its acquisition of a majority ownership in JMH, the Alliance assumed the then outstanding long-term debt of JMH, totaling $33,906, including the JMH Series 1998 Hospital Refunding and Improvement Revenue Bonds as further described in the table above.

Series 2008 Bonds

In February 2008, the Alliance issued $72,770 (Series 2008A) and $54,230 (Series 2008B) variable rate Hospital Revenue Bonds (collectively, the Series 2008 Bonds). The proceeds of Series 2008 Bonds were primarily used to finance certain future capital projects for the Alliance's hospital facilities and for the repayment of previously issued 2008 Taxable Notes used for the acquisition of RCMC. As discussed above, the payment of principal and interest on the Series 2008 Bonds and the purchase price of any tendered bonds on each series are secured by a separate, irrevocable, transferable, direct-pay letter of credit. A portion ($59,525) of the Series 2008A Bonds were repaid from proceeds of the Series 2010 Bonds.

The variable rate of interest on the Series 2008 Bonds is determined weekly by the Remarketing Agent (Merrill Lynch), as the rate equal to the lowest rate which, in regard to general financial conditions and other special conditions bearing on the rate, would produce as nearly as possible a par bid for the Series 2008 Bonds in the secondary market. In no event shall the variable rate on the Series 2008 Bonds during any period where interest is calculated weekly exceed the lesser of 12% annually or the maximum contract rate of interest permitted by the State of Tennessee for the Series 2008A Bonds or the Commonwealth of Virginia for the Series 2008B Bonds. The Alliance has the option, upon written approval of the holder of the letters of credit, the Remarketing Agent and others, to convert to a medium-term rate period or to a fixed rate.

The Series 2008 Bonds are subject to optional and mandatory tender for purchase prior to maturity at the option of the holder, upon conversion to a fixed rate, upon conversion to a medium-term rate period, prior to the effective date of any substitute letter of credit, or upon the termination of the letters of credit. The optional and mandatory tender provisions generally call for the Master Trustee to purchase the outstanding Series 2008 Bonds at a purchase price equal to the principal amount thereof plus accrued interest upon a stated date as described in the tender notice delivered to the bond holders.

Series 2007 Bonds

In December 2007, the Alliance issued $104,355 (Series 2007A), $327,170 (Series 2007B taxable) and $36,575 (Series 2007C) variable rate Hospital Revenue Bonds (collectively, the Series 2007 Bonds). The proceeds of Series 2007 Bonds were primarily used to early extinguish a portion of the

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

outstanding Series 2000A Bonds, all of the outstanding 2000B Bonds, all of the outstanding Series 1994 Bonds, and all of the outstanding Series 2006B Bonds; to finance the acquisition of a majority ownership in NCH, and to finance certain capital improvements and equipment acquisitions for the Alliance's hospital facilities. A portion of the outstanding Series 2007A ($91,685) and Series 2007C ($32,840) Bonds were repaid from proceeds of the Series 2010 Bonds. The remaining outstanding Series 2007A and Series 2007C Bonds were redeemed in 2011.

In 2011 during the letter of credit restructuring, the existing 2007B Bonds were repaid through a remarketing of Sub-Series 2007B-1, 2007B-2 and 2007B-3 (collectively, the Sub-Series 2007B Bonds), created per the mandatory tender and letter of credit substitution provisions. As discussed above, the payment of principal and interest on the Sub-Series 2007B Bonds and the purchase price of any tendered bonds on each series are secured by a separate, irrevocable, transferable, direct-pay letter of credit.

The variable rate of interest on the Series 2007 Bonds is determined weekly in the same manner as described above for the Series 2008 Bonds. In no event shall the variable rate on the bonds during any period where interest is calculated weekly exceed the lesser of 12% annually or the maximum contract rate of interest permitted by the State of Tennessee. The Alliance has the option, upon written approval of the holder of the letters of credit, the Remarketing Agent and others, to convert to a medium-term rate period or to a fixed rate. Upon such conversion, the bonds become subject to mandatory tender for purchase.

The Sub-Series 2007 Bonds are subject to optional and mandatory tender in the same manner as described above for the Series 2008 Bonds. In addition, the Sub-Series 2007B Bonds are subject to a special mandatory tender with respect to its conversion from taxable debt to tax-exempt debt. As discussed in Note S, certain of the Sub-Series 2007B Bonds were redeemed subsequent to year end.

Series 2006 Bonds

During 2006, the Alliance issued $173,030 Hospital First Mortgage Revenue Bonds (Series 2006A) and $66,500 Hospital First Mortgage Variable Rate Revenue Bonds (Series 2006B). The proceeds from the sale of the Series 2006A Bonds were used to finance certain future and prior capital projects for the Alliance's hospital facilities and to refund certain existing indebtedness, specifically the Series 2001B Bonds (discussed below) and certain existing short and intermediate term loans and leases, as well as fund a debt service reserve fund. The Series 2006B Bond proceeds were substantially used to refund the remaining outstanding principal of the Series 2001B Bonds and establish a debt service reserve fund.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Series 2001 Bonds

During 2001, the Alliance issued $26,000 Hospital First Mortgage Revenue Bonds (Series 2001A) and $60,175 Hospital First Mortgage Revenue Bonds (Series 2001B). The Series 2001A Bonds were subject to optional tender by Bond holders. Effective July 1, 2007, the Alliance entered into an agreement whereby the beneficial owners of the Series 2001A Bonds have irrevocably waived their rights to tender the Bonds under the provisions of the respective Bond Indenture. The waiver will continue in effect through the maturity of the 2001A Bonds. The Series 2001B Bonds were refunded and redeemed in 2006.

Series 2000 Bonds

The Hospital First Mortgage Revenue Refunding (Series 2000A Bonds) and First Mortgage Revenue Refunding Bonds (Series 2000B Bonds), were used to advance refund previously existing indebtedness as well as fund a required debt service reserve fund. The Hospital First Mortgage Revenue Bonds (Series 2000C Taxable Bonds) were intended to refinance certain mortgage indebtedness of BRMM, and to refund other previously existing indebtedness. The proceeds from the sale of the First Mortgage Bonds (Series 2000D Taxable Bonds) were used primarily to fund working capital for the Alliance.

The Series 2000A Bonds included at issue date $14,680 of insured Capital Appreciation Bonds. Such bonds bear a 0% coupon rate and have a yield of 6.625% annually. The Alliance recognizes interest expense and increases the amount of outstanding debt each year based upon this yield. Total principal and interest due at maturity (2026 through 2030) is $93,675.

The advance refunding of previously issued debt requires funds to be placed in irrevocable trusts in order to satisfy remaining scheduled principal and interest payments. Management, upon advice of legal counsel, believes the amounts deposited in such irrevocable trust accounts have contractually relieved the Alliance of any future obligations with respect to this debt, and the debt and escrowed securities are not considered liabilities or assets of the Alliance. Therefore, such debt has been derecognized.

Debt outstanding and not recognized in the Consolidated Balance Sheet at June 30, 2011 due to previous advance refundings of the Series 2000A Bonds, Series 2000B Bonds, Series 1998C Bonds, and Series 1991 Bonds, totaled approximately $525,025.

The assets placed in the irrevocable trust accounts are also not recognized as assets of the Alliance. These assets consist primarily of various investments, as permitted by bond indentures and other

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

documents, including United States Treasury obligations, an investment contract with MBIA Insurance Corporation (MBIA) in the original amount of $54,300, as well as the Series 2000C and 2000D Bonds which were purchased with the proceeds of the 2000A and 2000B Bonds specifically for the purpose of utilizing the Series 2000C and 2000D Bonds in the irrevocable trust. Therefore, certain of the assets held in the irrevocable trust accounts have future income streams contingent upon payments by the Alliance.

Essentially all of the Alliance's bonds are subject to redemption prior to maturity, including optional, mandatory sinking fund and extraordinary redemption, at various dates and prices as described in the respective Bond indentures and other documents.

Other Bonds, Notes Payable and Financing Arrangements

The Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding bonds. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. The NCH Series 2001 Hospital Refunding and Improvement Revenue Bonds are secured by revenues and a lien on certain real and personal property of NCH. The JMH Series 1998 Hospital Refunding and Improvement Revenue Bonds are secured by pledged gross receipts of JMH, as defined in the Master Trust indenture.

The scheduled maturities and mandatory sinking fund payments of the long-term debt and capital lease obligations (excluding interest), exclusive of net unamortized original issue discount and premium, at June 30, 2011 are as follows:

Year Ending June 30,		
2012	$	28,162
2013		32,230
2014		28,706
2015		34,504
2016		33,585
Thereafter		912,560
		1,069,747
Net discount		(662)
	$	1,069,085

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

The Alliance, NCH and JMH are each members of separate Obligated Groups. The bond indentures, master trust indentures, letter of credit agreements and loan agreements related to the various bond issues and notes payable contain covenants with which the respective Obligated Groups must comply. These requirements include maintenance of certain financial and liquidity ratios, deposits to trustee funds, permitted indebtedness, use of facilities and disposals of property. These covenants also require that failure to meet certain debt service coverage tests will require the deposit of all daily cash receipts of the Alliance into a trust fund. Management has represented the Alliance, NCH and JMH are in compliance with all such covenants at June 30, 2011.

In connection with the tax-exempt bonds, the Alliance is required every five years, and at maturity, to remit to the Internal Revenue Service amounts which are due related to positive arbitrage on the borrowed funds. The Alliance performs such computations when required and recognizes any liability at that time. Management does not believe there are any significant arbitrage liabilities at June 30, 2011 or 2010.

NOTE G--SELF-INSURANCE PROGRAMS

The Alliance is substantially self-insured for professional and general liability claims and related expenses. The Alliance maintains a $25,000 umbrella liability policy that attaches over the self-insurance limits of $10,000 per claim and a $15,000 annual aggregate retention. The Alliance's insurance program also provides professional liability coverage for certain affiliates and joint ventures.

The Alliance is also substantially self-insured for workers' compensation claims in the State of Tennessee and has established estimated liabilities for both reported and unreported claims. The Alliance maintains a stop-loss policy that attaches over the self-insurance limits of $1,000 per occurrence and $1,000 annual aggregate retention. In the State of Virginia, the Alliance is not self-insured and maintains workers' compensation insurance through commercial carriers.

At June 30, 2011, the Alliance is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through June 30, 2011 that may result in the assertion of additional claims, and other unreported claims may be asserted arising from services provided in the past. Alliance management has estimated and accrued for the cost of these unreported claims based on historical data and actuarial projections. The estimated net present value of malpractice and workers' compensation claims, both reported and unreported, as of June 30, 2011 and 2010 was $13,531 and $12,601, respectively. The discount rate utilized was 5% at June 30, 2011 and 2010.

(Dollars in Thousands)

NOTE G--SELF-INSURANCE PROGRAMS - Continued

Additionally, the Alliance is self-insured for employee health claims and recognizes expense each year based upon actual claims paid and an estimate of claims incurred but not yet paid, including a catastrophic claims reserve based on historical claims in excess of $75.

NOTE H--NET PATIENT SERVICE REVENUE

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the accompanying Consolidated Statements of Operations is as follows for the years ended June 30:

	2011	*2010*
Inpatient service charges	$ 1,983,340	$ 1,848,590
Outpatient service charges	1,807,247	1,669,705
Gross patient service charges	3,790,587	3,518,295
Less:		
Estimated contractual adjustments and other discounts	2,647,514	2,417,082
Estimated uncollectible self-pay	110,387	111,565
Charity care	72,432	61,378
	2,830,333	2,590,025
Net patient service revenue	$ 960,254	$ 928,270

NOTE I--THIRD-PARTY REIMBURSEMENT

The Alliance renders services to patients under contractual arrangements with Medicare, Medicaid, TennCare, Blue Cross and various other commercial payors. The Medicare program pays for inpatient services on a prospective basis. Payments are based upon diagnosis related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. The Alliance also receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid and other low income patients. Most Medicare outpatient services are reimbursed on a prospectively determined payment methodology. The Medicare program also reimburses certain other services on the basis of reasonable cost, subject to various prescribed limitations and reductions.

Reimbursement under the State of Tennessee's Medicaid waiver program (TennCare) for inpatient and outpatient services is administered by various managed care organizations (MCOs) and is based on diagnosis related group assignments, a negotiated per diem or fee schedule basis. The Alliance

NOTE I--THIRD-PARTY REIMBURSEMENT - Continued

also receives additional supplemental payments from the State of Tennessee. The amount recognized totaled $11,480 and $7,811 for the years ended June 30, 2011 and 2010, respectively. Such payments are not guaranteed in future periods.

The Virginia Medicaid program reimbursement for inpatient hospital services is based on a prospective payment system using both a per case and per diem methodology. Additional payments are made for the allowable costs of capital. Payments for outpatient services are based on Medicare cost reimbursement principles and settled through the filing of an annual Medicaid cost report.

Amounts earned under the contractual agreements with the Medicare and Medicaid programs are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. 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. Activity with respect to audits and reviews of the governmental programs in the healthcare industry has increased and is expected to increase in the future. No additional specific reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts. Management believes that any adjustments from these increased audits and reviews will not have a material adverse impact on the consolidated financial statements. However, due to uncertainties in the estimation, it is at least reasonably possible that management's estimate will change in 2012, although the amount of any change cannot be estimated. The impact of final settlements of cost reports or changes in estimates decreased net patient service revenue by $4,570 in 2011. The impact of final settlements of cost reports or changes in estimates were not significant in 2010.

Participation in the Medicare program subjects the Alliance to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the program. Management believes that adequate provision has been made for any adjustments, fines or penalties which may result from final settlements or violations of other rules or regulations. Management has represented that the Alliance is in substantial compliance with these rules and regulations as of June 30, 2011.

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

NOTE J--EMPLOYEE BENEFIT PLANS

The Alliance sponsors a retirement plan (the Plan) which covers substantially all employees. The Plan is a defined contribution plan which consists mainly of employer-funded contributions. During

NOTE J--EMPLOYEE BENEFIT PLANS - Continued

2011 and 2010, the Alliance made contributions to the Plan under a stratified system, whereby the Alliance's contribution percentage is based on each employee's years of service. In addition, the Alliance sponsors a 403(b) plan which is funded solely by employees' contributions. The Alliance does not make any discretionary or matching contributions into the 403(b) plan. Employees of certain other subsidiaries are covered by other plans, although such plans are not significant. The total expense related to defined contribution plans for the years ended June 30, 2011 and 2010 was $12,682 and $13,311, respectively.

NCH maintains a defined benefit pension plan and a post-retirement employee benefit plan. The accrued unfunded pension liability was $1,313 and $1,942, and the accrued unfunded post-retirement liability was $3,761 and $3,843 at June 30, 2011 and 2010, respectively.

The Alliance sponsors a secured executive benefit program (SEBP) for certain key executives. Contributions to the plan by the Alliance are based on an annual amount of funding necessary to produce a target benefit for the participants at their retirement date, although the Alliance does not guarantee any level of benefit will be achieved. The Alliance contributed $929 and $1,303 to the plan during 2011 and 2010, respectively. Other assets at June 30, 2011 and 2010 include $7,888 and $7,077, respectively, related to the Alliance's portion of the benefits which are recoverable upon the death of the participant. In addition, the Alliance sponsors a Section 457(f) plan for certain key executives. The benefits for substantially all employees previously participating in the SEBP plan have been transferred into the 457(f) plan.

NOTE K--CONCENTRATIONS OF RISK

The Alliance has locations primarily in upper East Tennessee and Southwest Virginia which is considered a geographic concentration. The Alliance grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Net patient service revenue from Washington County, Tennessee operations were approximately 54% of total net patient service revenue for each of the years 2011 and 2010.

The mix of receivables from patients and third-party payors based on charges at established rates is as follows as of June 30:

(Dollars in Thousands)

NOTE K--CONCENTRATIONS OF RISK - Continued

	2011	*2010*
Medicare	40%	42%
Tenncare/Medicaid	12%	15%
Commercial	27%	25%
Other third-party payors	9%	10%
Patients	12%	8%
	100%	100%

Approximately 98% of the consolidated total revenue, gains and support were related to the provision of healthcare services during 2011 and 2010. Admitting physicians are primarily practitioners in the regional area.

Two of the Alliance's Virginia hospitals' employees are covered under collective bargaining agreements which extend through February 2, 2014.

The Alliance routinely invests in investment vehicles as listed in Note C. The Alliance's investment portfolio is managed by outside investment management companies. Investments in corporate and foreign bonds and notes, municipal obligations, money market funds, equities and other vehicles that are held by safekeeping agents are not insured or guaranteed by the U.S. government. At June 30, 2011, the Alliance also had deposits in financial institutions significantly in excess of the Federal Deposit Insurance Corporation's limits.

NOTE L--INCOME TAXES

BRMM and its subsidiaries file a consolidated federal tax return and separate state tax returns. As of June 30, 2011 and 2010, BRMM and its subsidiaries had net operating loss carryforwards for consolidated federal purposes of $34,822 and $32,447, respectively, related to operating losses which expire through 2030. At June 30, 2011 and 2010, BRMM had state net operating loss carryforwards of $65,979 and $59,860, respectively, which expire through 2025. The net operating loss carryforwards may be offset against future taxable income to the extent permitted by the Internal Revenue Code and Tennessee Code Annotated.

At June 30, 2011 and 2010, SWCH had federal and state net operating loss carryforwards of $4,875 and $4,376, respectively, which expire through 2030. CHC files separate federal and state tax returns. At June 30, 2011 and 2010, CHC had a net deferred tax liability of $69 and $58, respectively, due primarily to temporary timing differences related to depreciation. The net operating loss carryforwards may be off-set against future taxable income to the extent permitted by the Internal Revenue Code and tax codes of the Commonwealth of Virginia.

NOTE L--INCOME TAXES - Continued

Net deferred tax assets related to these carryforwards and other deferred tax assets have been substantially offset through valuation allowances equal to these amounts. Income taxes paid relate primarily to state taxes for certain subsidiaries and federal alternative minimum tax.

NOTE M--RELATED PARTY TRANSACTIONS

The Alliance enters into transactions with entities affiliated with certain members of the Board of Directors including transactions to construct Alliance facilities and provide professional services to the Alliance. Board members refrain from discussion and abstain from voting on transactions with entities with which they are related.

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES

Construction in Progress: Construction in progress at June 30, 2011 represents costs incurred related to various hospital and medical office building facility renovations and additions. The Alliance has outstanding contracts and other commitments related to the completion of these projects, and the cost to complete these projects is estimated to be approximately $98,721 at June 30, 2011. The Alliance does not expect any significant costs to be incurred for infrastructure improvements to assets held for resale.

Physician Contracts: BRMM employs physicians to provide services to BRMM's physician practices through employment agreements which provide annual compensation, plus incentives based upon specified productivity levels. These contracts have various terms.

In addition, the Alliance has entered into contractual relationships with non-employed physicians to provide services in Upper East Tennessee and Southwest Virginia. These contracts guarantee certain base payments and allowable expenses and have terms of varying lengths. Upon completion of the respective guarantee period, amounts drawn and outstanding under each agreement are treated as a loan bearing interest at various rates and are subject to repayment over a specified period. The physician note may also be amortized by virtue of the physician's continued practice in the specified community during the repayment period. A net receivable of $1,407 and $1,818 related to these agreements is included in the accompanying Consolidated Balance Sheets at June 30, 2011 and 2010, respectively.

Employee Scholarships: The Alliance offers scholarships to certain individuals which require that the recipients return to the Alliance to work for a specified period of time after they complete their degree. Amounts due are then forgiven over a specific period of time as provided in the individual contracts. If the recipient does not return and work the required period of time, the funds disbursed on their behalf become due immediately and interest is charged until the funds are repaid. Other receivables June 30, 2011 and 2010 includes $7,250 and $5,571, respectively, related to students in

(Dollars in Thousands)

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES - Continued

school, graduates working at the Alliance and amounts due from others who are no longer in the scholarship program.

Promises to Give: The Alliance has recorded certain unconditional promises to give to unrelated organizations. At June 30, 2011, $1,568 is due within one year, and an additional $180 is due within five years and is included in other long-term liabilities.

Operating Leases and Maintenance Contracts: Total lease expense for the years ended June 30, 2011 and 2010 was $9,362 and $10,216, respectively. Future minimum lease payments for each of the next five years and in the aggregate for the Alliance's noncancellable operating leases with remaining lease terms in excess of one year are as follows:

Year Ending June 30,		
2012	$	2,846
2013		2,631
2014		2,286
2015		2,121
2016		1,285
Thereafter		9,914
	$	21,083

Estimated future minimum payments under various noncancellable maintenance contracts with remaining terms in excess of one year at June 30, 2011 total in the aggregate $1,422 through 2016.

Asset Retirement Obligation: The Alliance has identified asbestos in certain facilities and is required by law to dispose of it in a special manner if the facility undergoes major renovations or is demolished; otherwise, the Alliance is not required to remove the asbestos from the facility. The Alliance has complied with regulations by treating the asbestos so that it presents no known immediate or future safety concerns. An asset retirement obligation has been established to the extent that sufficient information exists upon which to estimate the liability.

Other: The Alliance is a party to various transactions and agreements in the normal course of business, which include purchase and re-purchase agreements, put arrangements and other commitments, which may bind the Alliance to undertake additional transactions or activities in the future. In addition, the Alliance has agreed to guarantee a portion of the outstanding indebtedness of a joint venture. Management estimates that the fair value of the guarantee of this debt is immaterial as of June 30, 2011.

(Dollars in Thousands)

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES - Continued

Healthcare Industry: Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

In March 2010, Congress adopted comprehensive health care insurance legislation, *Patient Care Protection and Affordable Care Act* and *Health Care and Education Reconciliation Act*. The legislation, among other matters, is designated to expand access to coverage to substantively all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing TennCare and Medicaid coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

NOTE O--RENTAL INCOME UNDER OPERATING LEASES

The Alliance leases rental properties to third parties, most of whom are physician practices, for various terms, generally five years. The following is a schedule by year and in the aggregate of minimum future rental income due under noncancellable operating leases at June 30, 2011:

Year Ending June 30,		
2012	$	1,742
2013		1,219
2014		958
2015		796
2016		397
Total minimum future rentals	$	5,112

NOTE P--FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Alliance using available market information as of June 30, 2011 and 2010, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Alliance could realize in a current market exchange. The carrying value of substantially all financial instruments approximates fair value due to the nature or term of the instruments, except as described below.

NOTE P--FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Investment in Joint Ventures: It is not practical to estimate the fair market value of the investments in joint ventures.

Other Long-Term Liabilities: Estimates of reported and unreported professional liability claims, pension and post-retirement liabilities are discounted to approximate their estimated fair value. It is not practical to estimate the fair market value of other long-term liabilities due to uncertainty of when these amounts may be paid. Other long-term liabilities are not discounted.

Long-Term Debt and Capital Leases: The fair value of long-term debt is estimated based upon quotes obtained from brokers for bonds and discounted future cash flows using current market rates for other debt. For long-term debt with variable interest rates, the carrying value approximates fair value.

The Alliance's significant capital leases and vendor contracts were negotiated with various entities and are considered unique. It is not practicable to estimate the fair value of these obligations under current conditions. Other capital lease obligations are not significant.

The estimated fair value of the Alliance's financial instruments that have carrying values different from fair value is as follows at June 30:

	2011		***2010***	
	Carrying Value	***Estimated Fair Value***	***Carrying Value***	***Estimated Fair Value***
FINANCIAL LIABILITIES:				
Long-term debt	$ 1,069,085	$ 1,046,675	$ 1,082,973	$ 1,105,778

NOTE Q--FAIR VALUE MEASUREMENT

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation 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 based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar

(Dollars in Thousands)

NOTE Q--FAIR VALUE MEASUREMENT - Continued

assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The Alliance's Level 2 investments are valued primarily using the market valuation approach.

- Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Alliance's own assumptions.

In instances where the determination of the fair value hierarchy 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 Alliance'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.

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of June 30, 2011 and 2010:

	June 30, 2011	*Level 1*	*Level 2*	*Level 3*
Trading securities	$ 333,610	$ 164,953	$ 135,939	$ 32,718
Assets whose use is limited	117,170	117,170	-	-
Total assets	$ 450,780	$ 282,123	$ 135,939	$ 32,718
Fair value of derivative agreements - Note D	$ (110,732)	$ -	$ -	$ (110,732)

	June 30, 2010	*Level 1*	*Level 2*	*Level 3*
Trading securities	$ 209,644	$ 164,510	$ 16,526	$ 28,608
Assets whose use is limited	177,180	177,180	-	-
Total assets	$ 386,824	$ 341,690	$ 16,526	$ 28,608
Fair value of derivative agreements - Note D	$ (134,300)	$ -	$ -	$ (134,300)

The valuation of the Alliance's derivative agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses observable market-based inputs, including forward interest rate curves. The fair values of interest rate swap agreements are determined by netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates based on observable

(Dollars in Thousands)

NOTE Q--FAIR VALUE MEASUREMENT - Continued

market forward interest rate curves and the underlying notional amount. The Alliance also incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty's nonperformance or credit risk in the fair value measurements. The CVA on the Alliance's interest rate swap agreements at June 30, 2011 and 2010 resulted in a decrease in the fair value of the related liability of $7,940 and $10,085, respectively.

A certain portion of the inputs used to value its interest rate swap agreements, including the forward interest rate curves and market perceptions of the Alliance's credit risk used in the CVAs, are unobservable inputs available to a market participant. As a result, the Alliance has determined that the interest rate swap valuations are classified in Level 3 of the fair value hierarchy.

The following tables provide a summary of changes in the fair value of the Alliance's Level 3 financial assets and liabilities during the fiscal years ended June 30, 2011 and 2010:

	Trading Securities	*Derivatives, Net*
July 1, 2009	$ 30,031	$ (126,217)
Total unrealized/realized losses in the Performance Indicator, net	(1,546)	(8,607)
Purchases, issuance and settlements and other, net	1,446	524
Transfers in (out), net	(1,323)	-
June 30, 2010	28,608	(134,300)
Total unrealized/realized gains in the Performance Indicator, net	2,847	23,049
Purchases, issuance and settlements and other, net	1,263	519
June 30, 2011	$ 32,718	$ (110,732)

There were no changes in valuation techniques in 2011 or 2010. During 2011, as part of the transitional test of goodwill impairment, the Alliance recognized goodwill impairment of $2,965 based primarily on the fair value of the reporting unit, utilizing the income approach. Remaining goodwill determined not to be impaired, for this specific reporting unit, is included in the Consolidated Balance Sheet at $2,900. There were no significant assets or liabilities that were re-measured at fair value on a non-recurring basis during the fiscal year ended June 30, 2010.

NOTE R--OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

Direct expenses by functional classification are as follows for the years ended June 30:

(Dollars in Thousands)

NOTE R--OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION - Continued

	2011	2010
Healthcare services	$ 817,397	$ 795,725
Administrative and general	130,543	125,852
Other	9,233	8,625
	$ 957,173	$ 930,202

NOTE S--SUBSEQUENT EVENTS

Acquisition: Subsequent to June 30, 2011, the Alliance purchased the stock of a pharmacy provider for approximately $6,700. The Alliance has not completed an allocation of the purchase price although it is anticipated significant intangible assets will be recognized upon such allocation.

Debt: In October 2011, the Alliance (along with BRMMC, NCH and SCCH) issued $85,260 of Series 2011 Tax-exempt Hospital Revenue Bonds through The Health and Educational Facilities Board of the City of Johnson City, Tennessee (the Tennessee Bonds) and $110,580 through the Industrial Development Authority of Smyth, Virginia (the Virginia Bonds). Such bonds were issued on parity with the outstanding bond indebtedness of the Alliance as of June 30, 2011. The Bonds bear interest at a variable rate determined by a remarketing agent based upon a weekly rate period. Additionally, the Alliance issued $15,960 of Series 2011 Taxable Bonds. NCH and SCCH were also admitted as members of the Alliance Obligated Group.

The proceeds from the Tennessee Bonds will be issued to finance certain capital acquisitions in the State of Tennessee and pay issuance costs related to these Bonds. The proceeds from the Virginia Bonds will be used to refinance $11,200 of 2001 NCH Hospital Refunding and Improvement Revenue Bonds, finance capital acquisitions for NCH, JMH and SCCH and to pay issuance costs associated with these Bonds. The Series 2011 Taxable Bonds proceeds will be used to finance capital acquisitions of SCCH and BRMMC and pay issuance costs. The timely payment of the Tennessee and the Virginia Bonds is secured by a letter of credit which expires October 19, 2014. The Alliance also redeemed $115,135 of the Series 2007B-1 Revenue Bonds and $29,405 of the Series 2007B-3 Revenue Bonds.

Management further anticipates issuance of an additional $25,000 of tax-exempt bonds for the benefit of JMH. JMH is not a member of the Mountain States Health Alliance Obligated Group.

Subsequent to June 30, 2011, JMH exercised their right to purchase a facility previously held under a capital lease for total consideration of $16,051. $2,093 was paid directly to the third party and the remaining $13,958 was by assumption of a promissory note with payments through 2013. The promissory note bears interest at a variable rate of LIBOR plus 1.5%. Additionally, JMH assumed an interest rate swap in the notional amount of $13,940. JMH pays a fixed rate of 7.46%

NOTE S--SUBSEQUENT EVENTS - Continued

and receives a variable rate of LIBOR plus 1.5%. The interest rate swap has a termination date of August 15, 2012.

Supplemental Schedules

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet
(Dollars in Thousands)

June 30, 2011

	Blue Ridge Medical Management *	*Other Obligated Group Members*	*Eliminations*	*Total Obligated Group*	*Other Entities*	*Mountain States Properties*	*Eliminations*	*Total*
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 450	$ 85,976	$ -	$ 86,426	$ 17,023	$ 9,319	$ -	$ 112,768
Current portion of investments	-	7,629	-	7,629	94.775	13,771	-	116,175
Patient accounts receivable, less estimated allowances for uncollectible accounts	4,476	96,083	-	100.559	34,052	-	-	134,611
Other receivables, net	848	13,434	-	14,282	4,552	780	-	19,614
Inventories and prepaid expenses	553	18,783	-	19,336	9,477	152	-	28,965
TOTAL CURRENT ASSETS	6,327	221,905	-	228,232	159,879	24,022	-	412,133
INVESTMENTS, less amounts required to meet current obligations	19,193	337,367	-	356,560	190,937	33,879	-	581,376
EQUITY IN AFFILIATES	139,582	387,825	(155,611)	371,796	-	-	(371,795)	-
PROPERTY, PLANT AND EQUIPMENT, net	10,696	469,613	-	480,309	258,342	58,766	-	797,418
OTHER ASSETS								
Goodwill	3,281	143.276	-	146,557	2,109	-	-	148,666
Net deferred financing, acquisition costs and	-	-	-	-	-	-	-	-
other charges, less current portion	168	27,991	-	28,159	568	1,117	-	29,844
Other assets	8,467	10,154	-	18,621	7,265	2.562	-	28,448
TOTAL OTHER ASSETS	11,916	181,421	-	193,337	9,942	3,679	-	206,958
	$ 187,714	$ 1,598,131	$ (155,611)	$ 1,630,234	$ 619,100	$ 120,346	$ (371,795)	$ 1,997,885

* Management Services Organization only

Consolidating Balance Sheet - Continued
(Dollars in Thousands)

June 30, 2011

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Other Entities	Mountain States Properties	Eliminations	Total
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Accrued interest payable	$ -	$ 19,607	$ -	$ 19,607	$ 440	$ -	$ -	$ 20,047
Current portion of long-term debt and capital lease obligations	550	23,724	-	24,274	3,888	-	-	28,162
Current portion of estimated fair value of derivatives	-	92,044	-	92,044	-	10,565	-	102,609
Accounts payable and accrued expenses	3,463	66,494	-	69,957	27,645	1,217	-	98,819
Accrued salaries, compensated absences and amounts withheld	3,093	40,177	-	43,270	14,530	-	-	57,800
Payables to (receivables from) affiliates, net	11,094	(81,319)	-	(70,225)	94,632	(24,407)	-	-
Estimated amounts due to third-party payors, net	-	12,547	-	12,547	2,266	-	-	14,813
TOTAL CURRENT LIABILITIES	18,200	173,274	-	191,474	143,401	(12,625)	-	322,250
OTHER LIABILITIES								
Long-term debt and capital lease obligations, less current portion	4,923	979,774	-	984,697	56,226	-	-	1,040,923
Estimated fair value of derivatives, less current portion	-	7,783	-	7,783	-	340	-	8,123
Deferred revenue	-	19,167	-	19,167	100	-	-	19,267
Estimated professional liability self-insurance	2,285	4,494	-	6,779	2,913	-	-	9,692
Other long-term liabilities	6,695	2,402	-	9,097	5,255	-	-	14,352
TOTAL LIABILITIES	32,103	1,186,894	-	1,218,997	207,895	(12,285)	-	1,414,607
NET ASSETS								
UNRESTRICTED NET ASSETS								
Unrestricted net assets								
Mountain States Health Alliance	155,478	400,395	(155,478)	400,395	228,554	132,631	(361,185)	400,395
Noncontrolling interests in subsidiaries	-	-	-	-	171,984	-	-	171,984
TOTAL UNRESTRICTED NET ASSETS	155,478	400,395	(155,478)	400,395	400,538	132,631	(361,185)	572,379
Temporarily restricted net assets								
Mountain States Health Alliance	133	10,715	(133)	10,715	10,483	-	(10,483)	10,715
Noncontrolling interests in subsidiaries	-	-	-	-	57	-	-	57
TOTAL TEMPORARILY RESTRICTED NET ASSETS	133	10,715	(133)	10,715	10,540	-	(10,483)	10,772
Permanently restricted net assets	-	127	-	127	127		(127)	127
TOTAL NET ASSETS	155,611	411,237	(155,611)	411,237	411,205	132,631	(371,795)	583,278
	$ 187,714	$ 1,598,131	$ (155,611)	$ 1,630,234	$ 619,100	$ 120,346	$ (371,795)	$ 1,997,885

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Operations (Dollars in Thousands)

Year Ended June 30, 2011

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Other Entities	Mountain States Properties	Eliminations	Total
Revenue, gains and support:								
Net patient service revenue	$ 35,353	$ 683,224	$ (1,702)	$ 716,875	$ 243,487	$ -	$ (108)	$ 960,254
Other operating revenue	26,855	3,657	(20,748)	9,764	39,423	7,807	(41,123)	15,871
Equity in net gain (loss) of affiliates	974	(3,283)	2,051	(258)	-	-	258	-
TOTAL REVENUE, GAINS AND SUPPORT	63,182	683,598	(20,399)	726,381	282,910	7,807	(40,973)	976,125
Expenses:								
Salaries and wages	17,287	235,564	-	252,851	92,108	150	(2,901)	342,208
Physician salaries and wages	32,631	1,010	-	33,641	55,417	-	(29,809)	59,249
Contract labor	866	3,234	-	4,100	2,123	-	(259)	5,964
Employee benefits	4,874	45,591	(1,743)	48,722	20,414	35	(2,032)	67,139
Fees	3,544	81,194	(20,612)	64,126	22,251	713	(1,171)	85,919
Supplies	1,745	129,126	-	130,871	38,594	2	(105)	169,362
Utilities	455	11,386	-	11,841	4,452	1,007	-	17,300
Other	4,778	38,479	(95)	43,162	28,206	3,230	(4,951)	69,647
Depreciation	1,476	59,635	-	61,111	23,666	2,722	-	87,499
Amortization	23	2,188	-	2,211	348	-	-	2,559
Estimated provision for bad debts	353	4,097	-	4,450	1,724	-	-	6,174
Interest and taxes	(1,228)	42,204	-	40,976	3,248	1,374	(1,445)	44,153
TOTAL EXPENSES	66,804	653,708	(22,450)	698,062	292,551	9,233	(42,673)	957,173
OPERATING INCOME (LOSS)	(3,622)	29,890	2,051	28,319	(9,641)	(1,426)	1,700	18,952
Nonoperating gains (losses):								
Interest and dividend income	662	9,810	-	10,472	6,552	645	(1,445)	16,224
Net realized gains on the sale of securities	73	1,449	-	1,522	435	-	-	1,957
Net unrealized gains on securities	1,311	13,664	-	14,975	7,949	(756)	-	22,168
Derivative related income	-	3,512	-	3,512	-	1,560	-	5,072
Change in estimated fair value of derivatives	-	23,137	-	23,137	-	(88)	-	23,049
Other nonoperating gains (losses)	(475)	1,245	-	770	(3,430)	4	3	(2,653)
Net assets released from restrictions used for operations	-	562	-	562	1,331	-	-	1,893
NET NONOPERATING GAINS	1,571	53,379	-	54,950	12,837	1,365	(1,442)	67,710
EXCESS (DEFICIT) OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ (2,051)	$ 83,269	$ 2,051	$ 83,269	$ 3,196	$ (61)	$ 258	$ 86,662

*Management Services Organization only.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Changes in Net Assets (Dollars in Thousands)

Year Ended June 30, 2011

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Other Entities: Mountain States Health Alliance	Other Entities: Noncontrolling Interests	Total Other Entities	Mountain States Properties	Eliminations	Total
UNRESTRICTED NET ASSETS:										
Excess of Revenue, Gains and Support over Expenses and Losses	$ (2,051)	$ 83,269	$ 2,051	$ 83,269	$ (197)	$ 3,393	$ 3,196	$ (61)	$ 258	$ 86,662
Pension and other defined benefit plan adjustments	-	620	-	620	620	617	1,237	-	(620)	1,237
Cumulative effect of a change in accounting principle	(2,965)	(2,965)	2,965	(2,965)	-	-	-			(2,965)
Net assets released from restrictions used for the purchase of property, plant and equipment	-	1,946	-	1,946	1,946	-	1,946	-	(1,946)	1,946
Distributions to noncontrolling interests	-	-	-	-	-	(270)	(270)	-	-	(270)
Repurchases of noncontrolling interests and other	(43)	40	43	40	(182)	(115)	(297)	-	182	(75)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(5,059)	82,910	5,059	82,910	2,187	3,625	5,812	(61)	(2,126)	86,535
TEMPORARILY RESTRICTED NET ASSETS:										
Restricted grants and contributions	-	3,612	-	3,612	2,990	58	3,048	-	(2,990)	3,670
Net assets released from restrictions	-	(3,787)	-	(3,787)	(3,225)	(52)	(3,277)	-	3,225	(3,839)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	-	(175)	-	(175)	(235)	6	(229)	-	235	(169)
INCREASE (DECREASE) IN TOTAL NET ASSETS	(5,059)	82,735	5,059	82,735	1,952	3,631	5,583	(61)	(1,891)	86,366
NET ASSETS, BEGINNING OF YEAR	160,670	328,502	(160,670)	328,502	237,212	168,410	405,622	132,692	(369,904)	496,912
NET ASSETS, END OF YEAR	$ 155,611	$ 411,237	$ (155,611)	$ 411,237	$ 239,164	$ 172,041	$ 411,205	$ 132,631	$ (371,795)	$ 583,278

*Management Services Organization only.

NOTE A--OBLIGATED GROUP MEMBERS

As described in Note F to the consolidated financial statements, the Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding bonds. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. In accordance with Article Six, Section 6.6 of the Amended and Restated Master Trust Indenture between Mountain States Health Alliance and the Bank of New York Trust Company, NA as Master Trustee, those members pledged include Johnson City Medical Center Hospital, Indian Path Medical Center, Franklin Woods Community Hospital, Sycamore Shoals Hospital, Johnson County Community Hospital, Russell County Medical Center and Blue Ridge Medical Management Corporation (parent company only), collectively defined as the Obligated Group (Obligated Group).

The supplemental consolidating schedules include the accounts of the members of the Obligated Group after elimination of all significant intergroup accounts and transactions. Certain other subsidiaries of the Alliance, Mountain States Properties, Inc. (MSP) and all other affiliates (Other Entities), are not pledged to secure the payment of the outstanding bonds as they are not part of the Obligated Group. These affiliates have been accounted for within the Obligated Group based upon the Alliance's original and subsequent investments, as adjusted for the Alliance's pro rata share of income or losses and any distributions, and are included as a part of equity in affiliates in the supplemental consolidating balance sheet.

APPENDIX C

SUMMARY OF THE FINANCING DOCUMENTS

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SUMMARY OF THE FINANCING DOCUMENTS

Brief descriptions of the Master Indenture, the Bond Indenture and the Loan Agreement are included in this Appendix C to the Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Master Indenture, the Bond Indenture and the Loan Agreement are qualified in their entirety by reference to each such document, copies of which are available for review at the offices of the Mountain States Health Alliance, Legal Department, 400 North State of Franklin Road, Johnson City, Tennessee. All references to the Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto included in the Master Indenture or the Bond Indenture.

DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used in the Master Indenture, the Bond Indenture, the Loan Agreement and this Official Statement.

"Act" means, in the case of the Series 2012A Bonds, Sections 48-101-301 to 48-101-318, Tennessee Code Annotated, as from time to time amended.

"Additional Bonds" means the bonds authorized to be issued by the Issuer under the Bond Indenture in addition to the initial series of Bonds issued thereunder.

"Additional Indebtedness" shall mean any Indebtedness (including all Obligations, other than the Initial Obligation) incurred by any Obligated Issuer, subsequent to its becoming an Obligated Issuer.

"Additional Obligations" means any Obligations issued under the Master Indenture after the issuance of the initial obligation thereunder.

"Affiliate" of any specified Person shall mean any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, (i) "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the power to appoint and remove its directors, the ownership of voting securities, by contract, membership or otherwise; and (ii) the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Balloon Indebtedness" shall mean: (a) Long-Term Indebtedness as to which, when issued, 25% or more of the debt service thereon is due in a single year, or (b) Long-Term Indebtedness as to which, when issued, 25% or more of the original principal amount thereof may, at the option of the holder or registered owner thereof, be redeemed or repurchased at one time, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such date, or (c) any Guaranty of Long-Term Indebtedness that is Balloon Indebtedness.

"Bankruptcy Law" shall mean the United States Bankruptcy Code, 11 U.S.C. §§ 101, et seq., or any similar statute.

"Bond Indenture" means the Bond Trust Indenture dated as of September 1, 2012, between the Issuer and the Bond Trustee, as amended and supplemented.

"Bond Index" means the "Bond Buyer Revenue Bond Index" as published from time to time in The Bond Buyer, or, if such index shall no longer be published, a comparable index designated by the Bond Insurer during the period that any Related Bonds are outstanding that are insured by the Bond Insurer and thereafter by the Obligated Group Agent.

"Bond Insurer" means MBIA Insurance Corporation and its successor or successors. The Bonds offered pursuant to this Official Statement are not insured.

"Bond Trustee" means The Bank of New York Mellon Trust Company, N.A. or any successor trustee under the Bond Indenture.

"Bondholder," "holder" or **"owner of the Bonds"** means the registered owner of any Related Bond.

"Book Value," when used in connection with Property of any member of the Obligated Group, shall mean the cost of such Property, net of accumulated depreciation, calculated in conformity with generally accepted accounting principles, and when used in connection with Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property of all members of the Obligated Group determined in such a manner that no portion of such value of Property of any member of the Obligated Group is included more than once.

"Capitalization" shall mean the principal amount of all outstanding Long-Term Indebtedness of the Obligated Group, plus the equity accounts of the Obligated Group (i.e., unrestricted fund balances, including any shareholder equity or partnership equity).

"Cash to Debt Ratio" means the ratio of Unrestricted Liquid Funds to Long Term Indebtedness.

"Chattel Paper" shall have the meaning assigned that term under the Uniform Commercial Code as in effect in any relevant jurisdiction.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

"Collateral" shall mean (i) all Receivables, (ii) all Inventory, (iii) all Equipment, (iv) all General Intangibles, (v) all Contracts and all Contract rights, (vi) all amounts from time to time held in any checking, savings, deposit or other account of any Obligated Issuer, (vii) all Government Approvals, provided, that any Government Approval which by its terms or by the operation of law would become void, voidable, terminable or revocable if mortgaged, pledged or signed under the Master Indenture or if a security interest therein were granted under the Master Indenture or expressly accepted and excluded from the security interest by the Master Indenture granted to the extent necessary so as to avoid such voidness, voidability, terminability or revocability, (viii) all Fixtures, including but not limited to those now or hereafter attached to, placed on or incorporated in the Land, (ix) all Revenues, (x) without limiting the generality of the foregoing, all other personal property, goods, Instruments, Chattel Paper, Documents, credits, claims, demands and assets of any Obligated Issuer, whether now existing or hereafter acquired from time to time, and (xi) any and all additions and accessions to any of the foregoing, all improvements thereto, all substitutions and replacements therefor and all products and Proceeds thereof.

"Commitment Indebtedness" means the obligation of any Person to repay amounts disbursed pursuant to a Credit Facility to pay when due such Person's obligations under Indebtedness incurred in accordance with the provisions of the Master Indenture.

"Completion Indebtedness" shall mean any Long-Term Indebtedness (i) incurred by any Person for the purpose of financing the completion of constructing or equipping Facilities with respect to which Long-Term Indebtedness was theretofore incurred in accordance with the provisions hereof, and (ii) with a principal amount not in excess of the amount required (a) to provide a completed and equipped Facility of substantially the type and scope contemplated at the time such prior Long-Term Indebtedness was incurred, (b) to provide for capitalized interest during the period of construction, (c) to capitalize a reserve with respect to such Completion Indebtedness and (d) to pay the costs and expenses of issuing such Completion Indebtedness.

"Construction Index" shall mean the health care component of the implicit price deflator for the gross national product as most recently reported prior to the date in question by the United States Department of Commerce or its successor agency, or, if such index is no longer published, such other index which is certified to be comparable and appropriate by the Obligated Group Agent in an Officer's Certificate delivered to the Master Trustee.

“Consultant” shall mean a Person who or which is appointed by the Obligated Group Agent for the purpose of passing on questions relating to the financial affairs, management or operations of one or more members of the Obligated Group or the entire Obligated Group and, in the good faith opinion of the Obligated Group Agent, has a favorable reputation for skill and experience in performing similar services in respect of entities engaged in reasonably comparable endeavors. If any Consultant’s report or opinion is required to be given with respect to matters partly within and partly without the expertise of such Consultant, such Consultant may rely upon the report or opinion of another Consultant, which other Consultant shall be reasonably satisfactory to the relying Consultant and the Obligated Group Agent.

“Contract Rights” shall mean all rights under any Contract to make determinations, to exercise any election (including, but not limited to, election of remedies) or option or to give or receive any notice, consent, waiver or approval together with full power and authority with respect to any Contract to demand, receive, enforce, collect or receipt for any of the foregoing rights or any property the subject of any of the Contracts, to enforce or execute any checks, or other instruments or orders, to file any claims and to take any action which, in the reasonable opinion of a secured party, may be necessary or advisable in connection with any of the foregoing.

“Contracts” shall mean all contracts to which any Obligated Issuer now is, or hereafter will be, bound, or a party, beneficiary or assignee, including, without limitation, all instruments, agreements and documents executed and delivered with respect to such contracts, and all revenues, rentals, Proceeds and other sums of money due and to become due from any of the foregoing, as the same may be modified, supplemented or amended from time to time in accordance with their terms.

“Corporation” or **“Alliance”** means Mountain States Health Alliance, a Tennessee not-for-profit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

“Counsel” shall mean a lawyer duly admitted to practice law before the highest court of any state in the United States of America or the District of Columbia, or any law firm, who or which, as the case may be, is not unsatisfactory to any recipient of the opinion required to be rendered by such Counsel.

“Credit Facility” means any letter of credit, line of credit, insurance policy, guaranty or other agreement constituting a credit enhancement or liquidity facility which is issued by a bank, trust company, savings and loan association or other institutional lender, insurance company or surety company for the benefit of the holder of any Indebtedness in order to provide a source of funds for, the payment of all or any portion of an Obligated Issuer’s payment obligations under such Indebtedness.

“Days Cash on Hand Ratio” as of the end of any Fiscal Year means the product obtained by multiplying 365 times (i) the Unrestricted Liquid Funds of the Obligated Group as of the last day of such Fiscal Year, divided by (ii) the total operating expenses of the Obligated Group for such Fiscal Year, excluding depreciation and amortization expense and bad debt expense, as shown on the financial statements of the Obligated Group for such Fiscal Year.

“Debt Service Requirement” of any Person shall mean, for any period of time, the amounts payable or the payments required to be made by such Person in respect of principal and interest on outstanding Long-Term Indebtedness during such period (calculated in such a manner that no portion of Long-Term Indebtedness is included more than once), taking into account (for purposes of calculating any projected debt service requirements) (i) that any Indebtedness represented by a Guaranty shall be deemed payable on the dates and in the amounts contemplated in the Master Indenture (concerning the assumptions to be used in including debt service requirements of the guaranteed obligations), (ii) that any payments to be made in respect of Balloon Indebtedness and Variable Rate Indebtedness shall be calculated in accordance with the provisions of Section 4.4 of the Master Indenture, (iii) that, with respect to Indebtedness refunded or refinanced during such period, only an amount of principal and interest equal to the principal and interest not payable from the proceeds of Indebtedness shall be taken into account during such period, (iv) any amounts payable from funds available under an Escrow Deposit (other than amounts so payable solely by reason of the obligor’s failure to make payments from other sources) shall be excluded from the determination of the Debt Service Requirement, and (v) that with respect to any Indebtedness which is the subject of a Hedge Agreement, any Regular Scheduled Qualified Swap Payments under such Hedge Agreement (provided, however, that if the Regular Scheduled Qualified Swap Payments are variable rate payments, interest shall be calculated as if the indebtedness was Variable Rate Indebtedness) payable or receivable with respect to such Indebtedness shall be taken into account in determining the interest payable with respect to such Indebtedness.*

"Defeasance Investments" shall mean (a) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series-- "SLGS"); (b) Direct obligations of the Treasury which have been stripped by the Treasury itself, "CATS" and "TIGRS" and similar securities; (c) Resolution Funding Corp. (REFCORP) -- only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable; (d) Pre-refunded municipal bonds rated "Aaa" by Moody's or "AAA" by S&P. If however, the issue is rated by only S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition; (e) Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.; 1. U.S. Export-Import Bank (Eximbank): Direct obligations or fully guaranteed certificates of beneficial ownership; 2. Farmers Home Administration (FHA): Certificates of beneficial ownership; 3. Federal Financing Bank; General Services Administration: Participation certificates; U.S. Maritime Administration: Guaranteed Title XI financing; U.S. Department of Housing and Urban Development (HUD): Project Notes, Local Authority Bonds, New Community debentures - U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds; and (f) the following securities: (1) securities rated "Aaa" by Moody's or "AAA" (at the time such securities are used to defease Bonds pursuant to Article XI hereof) by S&P; (2) collateralized GIC's with providers rated "Aaa" by Moody's and "AAA" by S&P (at the time such securities are used to defease Bonds pursuant to Article XI hereof; and (3) obligations of Federal Home Loan Mortgage Corporation and Federal National Mortgage Association.

"Discounted Indebtedness" means Indebtedness sold to the original purchaser thereof (other than any underwriter or other similar intermediary) at a discount from the par amount of such Indebtedness.

"Document" shall have the meaning assigned that term under the Uniform Commercial Code as in effect in any relevant jurisdiction.

"Equipment" shall mean any "equipment," as such term is defined in the Uniform Commercial Code as in effect in any relevant jurisdiction, now or hereafter owned or leased by any Obligated Issuer and, in any event, shall include, but shall not be limited to, all equipment used in connection with the facilities constructed from time to time on the Land, all machinery, tools, office equipment, furniture, furnishings, fixtures, vehicles, motor vehicles, and any manuals, instructions, blueprints, computer software and similar items which relate to the above, and any and all additions, substitutions and replacements of any of the foregoing, wherever located, together with all improvements thereon and all attachments, components, parts, equipment and accessories installed thereon or affixed thereto.

"Escrow Deposit" shall mean a segregated escrow fund or other similar fund, account or deposit in trust of cash in an amount (or Defeasance Investments the principal of and interest on which will be in an amount), and

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*By their purchase of the Bonds, the initial holders thereof will consent to an amendment of this definition as described in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS -- Amendment of the Master Indenture" in the front part of this Official Statement. The proposed amended definition is as follows:

"Debt Service Requirement" of any Person shall mean, for any period of time, the amounts payable or the payments required to be made by such Person in respect of principal and interest on Outstanding Long-Term Indebtedness during such period (calculated in such a manner that no portion of the Long-Term Indebtedness is included more than once), taking into account (for purposes of calculating any projected debt service requirements) (i) that any Indebtedness represented by a Guaranty shall be deemed payable on the dates and in the amounts contemplated in Section 4.3 (concerning the assumptions to be used in including debt service requirements of the guaranteed obligations), (ii) that any payments to be made in respect of Balloon Indebtedness and Variable Rate Indebtedness shall be calculated in accordance with the provisions of Section 4.4, (iii) that, with respect to Indebtedness refunded or refinanced during such period, only an amount of principal and interest equal to the principal and interest not payable from the proceeds of Indebtedness shall be taken into account during such period, (iv) any amounts payable from funds available under an Escrow Deposit (other than amounts to payable solely by reason of the obligor's failure to make payments from other sources), shall be excluded from the determination of the Debt Service Requirement, and (v) that with respect to any Indebtedness which is the subject of a Hedge Agreement, the rate payable under such Hedge Agreement, rather than the actual interest payable on such Indebtedness, shall be taken into account in determining the interest payable with respect to such Indebtedness.

under terms, sufficient to pay all or a portion of the principal of, and premium, if any, and interest on, the indebtedness secured by such escrow fund or other similar fund, account or deposit as the same shall become due or payable upon redemption.

"Facilities" shall mean all land, leasehold interests and buildings and all fixtures and equipment of a Person.

"Fair Value Net Worth" of a person as of any date shall mean:

(i) the fair value or fair saleable value (as the case may be, determined in accordance, with applicable federal and state laws affecting creditors rights and governing determinations of insolvency of debtors) of such person's assets (including such person's rights to contribution and subrogation under Sections 2.3(d) and (f) of the Master Indenture or in respect of any other guarantee) as of such date, minus

(ii) the amount of all liabilities of such person (determined in accordance with such laws) as of such date, excluding (x) such person's Cross Guarantee and (y) any liabilities subordinated in right of payment to such Cross Guarantee, minus

(iii) $1.00.

"Financial Advisor" shall mean an investment banking or financial advisory firm, commercial bank or any other qualified Person who or which is appointed by the Obligated Group Agent for the purpose of passing on questions relating to the availability and terms of specified types of Indebtedness for any member of the Obligated Group and is actively engaged in and, in the good faith opinion of the Obligated Group Agent, has a favorable reputation for skill and experience in underwriting or providing financial advisory services in respect of similar types of indebtedness incurred by entities engaged in reasonably comparable endeavors.

"Fiscal Year" shall mean a period of twelve consecutive months ending on June 30 or on such other date as may be specified in an Officer's Certificate of the Obligated Group Agent executed and delivered to the Master Trustee.

"Fixtures" shall have the meaning assigned that term under the Uniform Commercial Code as in effect in any relevant jurisdiction and in any event shall include all goods now or hereafter attached to, placed on, or incorporated in the Land.

"General Intangibles" shall mean "general intangibles" as such term is defined in the Uniform Commercial Code as in effect in any relevant jurisdiction, now or hereafter owned by any Obligated Group Issuer and shall include, but not be limited to, all trademarks, trademark applications, trademark registrations, tradenames, fictitious business names, business names, company names, business identifiers, prints, labels, trade styles and service marks (whether or not registered), including logos and/or designs, copyrights, patents, patent applications, goodwill of any Obligated Issuer's business symbolized by any of the foregoing, trade secrets, license rights, license agreements, permits, franchises, and any rights to tax refunds to which any Obligated Issuer is now or hereafter may be entitled.

"Governing Body" shall mean, when used with respect to any Person, its board of directors, board of trustees, or other board, committee or group of individuals in which the powers of a board of directors or board of trustees is vested generally or for the specific matters under consideration.

"Government Issuer" shall mean any federal, state or municipal corporation or political subdivision thereof or any instrumentality of any of the foregoing empowered to issue obligations on behalf thereof.

"Government Obligations" shall mean direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, including evidences of a direct ownership interest in future interest or principal payments on obligations issued or guaranteed by the United States of America, which obligations are held in a custody account by a custodian pursuant to the terms of a the terms of a custody agreement.

"Governmental Approvals" shall mean any authorization, consent, approval, license, ruling, permit, certification, exemption, filing or registration by or with any governmental authority.

"Gross Receipts" shall mean all Revenues, operating revenues and non-operating revenues, receipts, rentals and income of, or received by, any Obligated Issuer, under generally accepted accounting principles, and all rights to receive the same, whether in the form of accounts receivable, Receivables, accounts, Documents, Investment Property, Contract Rights, Chattel Paper, Instruments, General Intangibles or other rights and all Proceeds thereof, including insurance proceeds and condemnation awards payable or paid in respect of the Facilities, whether now existing or hereafter coming into existence and whether now owned or hereafter acquired, and the proceeds thereof including, without limitation, revenues derived from the ownership, operation or leasing of the Facilities; provided, however, that there shall be excluded from Gross Receipts (i) all gifts, grants, bequests, donations or contributions (collectively, "gifts"), which gifts may not be pledged or applied to the payment of principal or interest on the Obligations as a result of restrictions or designations imposed by the donor or maker of the gift in question at the time of the making thereof and income therefrom if such income may not be pledged or applied to the payment of principal or interest on the Obligations as a result of a restriction or designation described in this clause (i), and (ii) any proceeds of any additional indebtedness incurred or assumed by the Obligated Issuer pursuant to the terms of the Master Indenture, to the extent required by the terms of the documentation evidencing such additional indebtedness.

"Guaranty" shall mean any obligation of a Obligated Group member guaranteeing any obligation of any other Person other than a Obligated Group member, whether or not issued under the Master Indenture as an Indenture Guaranty, which obligation would, if such other Person were a member of the Obligated Group, constitute Indebtedness under the Master Indenture.

"Hedge Agreement" means (a) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (b) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (c) any contract to exchange cash flows or payments or series of payments; (d) any type of contract called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payments, currency, rate or other financial risk; and (e) any other type of contract or arrangement that the Obligated Group Agent determines is to be used, to manage or reduce the cost of an Indebtedness, to convert any element of any Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty.

"Historical Debt Service Coverage Ratio" shall mean, for any period of time, the ratio determined by dividing Total Income Available For Debt Service for such period by the Debt Service Requirement of the Obligated Group for such period.

"Historical Maximum Annual Debt Service Coverage Ratio" shall mean, for any period of time, the ratio determined by dividing Total Income Available for Debt Service for such period by the Maximum Annual Debt Service of the Obligated Group.

"Historical Pro Forma Debt Service Coverage Ratio" shall mean for any period of time, the ratio determined by dividing Total Income Available for Debt Service for such period by the Maximum Annual Debt Service of the Obligated Group for all Long Term Indebtedness then outstanding and the Long-Term Indebtedness then proposed to be issued.

"Holder" shall mean, as the context requires, the registered owner of any Note, the beneficiary of any Indenture Guaranty in whose name an Indenture Guaranty is issued or the holder or beneficiary of any other type of Obligation. In the case of an Obligation issued to a trustee or other fiduciary acting on behalf of the holders of any bonds, notes or other similar obligations which are secured by such Obligation, including any registered securities depositary then in the business of holding (for the benefit of beneficial owners whose interests may be evidenced by book-entry registration) substantial amounts of obligations of types comprising the Obligations, the term Holder shall mean the trustee or other fiduciary or, if so provided in the Related Financing Documents, the holders of the Related Bonds in proportion to their respective interests therein, including any registered securities depositary then in the business of holding (for the benefit of beneficial owners whose interests may be evidenced by book-entry registration) substantial amounts of obligations of types comprising the Obligations. For purposes of determining the Holders of the two largest principal amounts of Uninsured Obligations, any Holder of Related Bonds relating to Uninsured Obligations shall be deemed to be the owner of a proportionate amount of the Uninsured Obligations, and any such Uninsured Obligations owned by affiliated entities shall be treated as owned by one Holder.

"Income Available For Debt Service" of a Person shall mean, with respect to any period of time, the excess of revenues over expenses, or, in the case of for-profit entities, net income before tax, as determined in accordance with generally accepted accounting principles, to which shall be added, in either case, (i) depreciation, (ii) amortization, (iii) interest expense on Long-Term Indebtedness, and, (iv) to the extent not already included, contributions and donations and from which shall be excluded any extraordinary items, any impairment losses, any gain or loss resulting from either the extinguishment of indebtedness or the sale, exchange or other disposition of assets not made in the ordinary course of business, provided, however, that (a) no determination of lncome Available for Debt Service will take into account any gains or losses resulting from the periodic valuation of investments or Hedge Agreements that do not involve the sale, transfer or other disposition of any such investment or Hedge Agreement or the termination of any Hedge Agreement and (b) a Person may include in its net income such Person's share of the net income of any Person controlled by such Person or in whom such Person has a legal interest.

"Indebtedness" of a Person means (i) all Notes and Guaranties, (ii) all liabilities (exclusive of reserves such as those established for deferred taxes or litigation) recorded on the audited financial statements of such Person as of the end of the most recent Fiscal Year for which financial statements reported upon by an Accountant are available, and (iii) all other obligations for borrowed money; provided that Indebtedness shall not include (1) Subordinated Indebtedness, (2) Hedge Agreements, (3) any other Indebtedness of any member of the Obligated Group to any other member of the Obligated Group, (4) rentals payable under leases which are not properly capitalized under generally accepted accounting principles or (5) any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group.

"Indenture Guaranty" shall mean any Guaranty issued under the Master Indenture by an Obligated Issuer. "Independent Counsel" means an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include independent legal counsel for any Related Issuer, any Obligated Issuer, the Master Trustee or any Related Bond Trustee.

"Instrument" shall have the meaning assigned that term under the Uniform Commercial Code as in effect in any relevant jurisdiction.

"Inventory" shall mean all of the inventory of any Obligated Issuer of every type or description, including all inventory as such term is defined in the Uniform Commercial Code as in effect in any relevant jurisdiction, now owned or hereafter acquired and wherever located, whether raw, in process or finished, all materials usable in processing the same and all documents of title covering any inventory, including but not limited to work in process, materials used or consumed in such Obligated Issuer's business, now owned or hereafter acquired or manufactured by such Obligated Issuer and held for sale in the ordinary course of its business; all present and future substitutions therefor, parts and accessories thereof and all additions thereto; and all proceeds thereof and products of such inventory in any form whatsoever.

"Investment Property" shall have the meaning assigned that term under the Uniform Commercial Code as in effect in any relevant jurisdiction.

"Investment Securities" shall mean and include the following:

(a) Government Obligations;

(b) debt obligations issued by any of the following agencies or such other like governmental or government-sponsored agencies which may be hereafter created: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank; Federal Home Loan Bank System; Federal National Mortgage Association; Export-Import Bank of the United States; Farmers Home Administration; Small Business Administration; Government National Mortgage Association; or Resolution Funding Corporation;

(c) long-term debt obligations of any state or political subdivision thereof or any agency or instrumentality of such a state or political subdivision or of any corporation, provided that such obligations are rated by the Rating Agency in any of the three highest rating categories (without, reference to sub-categories) assigned by the Rating Agency;

(d) rights to receive the principal of or the interest on obligations of states, political subdivisions, agencies or instrumentalities meeting the requirements set forth in subsection (c) above, whether through (i) direct ownership as evidenced by physical possession of such obligations or unmatured interest coupons or by registration as to ownership on the books of the issuer or its duly authorized paying agent or transfer agent, or (ii) purchase of certificates or other instruments evidencing an undivided ownership interest in payments of the principal of or interest on such obligations;

(e) negotiable and non-negotiable certificates of deposit, time deposits or other similar banking arrangements which are issued by banks, trust companies or savings and loan associations, provided that, unless issued by a Qualified Financial Corporation, any such certificate, deposit or other arrangement shall be continuously secured as to principal in the manner and to the extent provided in the last paragraph of this definition;

(f) repurchase agreements for Investment Securities described in subparagraph (a) or (b) above with a Qualified Financial Corporation or with dealers in government bonds which report to, trade with and are recognized as primary dealers by a Federal Reserve Bank or are members of the Securities Investors Protection Corporation, provided that the repurchase price payable under any such agreement shall be continuously secured in the manner and to the extent provided in the last paragraph of this definition;

(g) investment agreements with Qualified Financial Corporations;

(h) commercial paper rated in the highest rating category (without reference to sub-categories) by the Rating Agency;

(i) shares or certificates in any short-term investment fund which short-term investment fund invests solely in obligations described in subparagraph (a), (b), (c) or (h) above; or

(j) debt obligations of any foreign government or political subdivision thereof or any agency or instrumentality of such foreign government or political subdivision provided that such obligations are rated by the Rating Agency (without reference to subcategories) in the highest rating category assigned by the Rating Agency.

Any security required to be maintained for Investment Securities in the form of certificates of deposit, time deposits, other similar banking arrangements and repurchase agreements described in subsections (e) and (f) above shall be subject to the following:

(i) the collateral shall be in the form of obligations described in subsections (a) or (b) above, except that the security for certificates of deposit, time deposits or other similar banking arrangements may include other marketable securities which are eligible as security for trust funds under applicable regulations of the Comptroller of the Currency of the United States of America or under applicable state laws and regulations.

(ii) the collateral shall have an aggregate market value, calculated not less frequently than monthly, at least equal to the principal amount (less any portion insured by the Federal Deposit Insurance Corporation or any comparable insurance corporation chartered by the United States of America) or the repurchase price secured thereby, as the case may be. The instruments governing the issuance of and security for the

Investment Securities shall designate the Person responsible for making the foregoing calculations; provided that the Master Trustee shall make such calculations if they are not made by the Person so designated.

"Issuer" shall mean, in the case of the Series 2012A Bonds, The Health and Educational Facilities Board of the City of Johnson City, Tennessee, its successors and assigns.

"Land" shall mean the land subject to the Master Deed of Trust.

"Lien" shall mean any mortgage or pledge of, security interest in or lien or encumbrance on any Property of any member of the Obligated Group in favor of, or which secures any Indebtedness or any other obligation of any member of the Obligated Group to any Person other than another member of the Obligated Group, but specifically excluding subordination arrangements among creditors.

"Loan Agreement" means the Loan Agreement dated as of September 1, 2012, between the Issuer and the Corporation.

"Long-Term Indebtedness" shall mean (i) all Indebtedness which, at the time of incurrence or issuance, has a final maturity or term greater than one year or which is renewable at the option of the obligor thereof for a term greater than one year from the date of original incurrence or issuance; and (ii) Short-Term Indebtedness which is incurred as interim financing and which is intended to be repaid out of the proceeds of other Long-Term Indebtedness, provided that any one of the applicable conditions described in Section 4.2 of the Master Indenture are met with respect to such Short-Term Indebtedness on the date of incurrence, assuming for purposes of compliance therewith that such Short-Term Indebtedness is Long Term Indebtedness characterized as Balloon Indebtedness for purposes of meeting any of the applicable conditions in Section 4.2 of the Master Indenture; provided, that, Long-Term Indebtedness shall not include (a) Non-Recourse Indebtedness or Subordinated Indebtedness; (b) current obligations payable out of current revenues, including current payments for the funding of pension plans and contributions to self insurance programs; (c) obligations under contracts for supplies, services or pensions, allocated to the current operating expenses of future years in which the supplies are to be furnished, the services rendered or the pensions paid; and (d) rentals payable under leases which are not properly capitalized under generally accepted accounting principles.

"Master Deed of Trust" shall mean the Deed of Trust and Security Agreement dated as of February 1, 2000 from the Corporation to an individual, as trustee, granting a deed of trust lien on and a security interest in the Land and the other collateral described therein for the benefit of the Master Trustee, to secure the payment and performance of outstanding Obligations.

"Master Indenture" means the Amended and Master Trust Indenture dated as of February 1, 2000 between the Corporation and the Master Trustee, as it may from time to time be amended or supplemented in accordance with the terms thereof.

"Master Trustee" means The Bank of New York Mellon Trust Company, N.A., or any successor trustee under the Master Indenture.

"Maximum Annual Debt Service" of the Obligated Group shall mean the highest annual Debt Service Requirement of the Obligated Group for the current or any succeeding Fiscal Year during the remaining term of all outstanding Obligations.

"Maximum Guaranty Liability" of a Person as of any date shall mean the greater of either (i) or (ii) below:

(i) the greater of(A) or (B) as of such date:

(A) the outstanding amount of all Obligations issued by such Person or

(B) the fair market value of all property acquired, in whole or part, with the proceeds of such Obligations by such Person.

(ii) The greatest of the Fair Value Net Worth of such Person as of (1) the latest fiscal year-end of such Person, (2) each fiscal quarter-end of such Person thereafter occurring on or prior to the date of the determination of Maximum Guaranty Liability, (3) the date on which enforcement of the pertinent Cross Guarantee is sought, and (4) the date on which a case under the U.S. Bankruptcy Code is commenced with respect to any Obligated Issuer.

"Net Operating Revenues" of a Person means, with respect to any period of time, operating revenues less estimated contractual allowances, free care, discounts and bad debt expense, all determined, except as is specifically provided in the Master Indenture, in accordance with generally accepted accounting principles.

"Net Property, Plant and Equipment" means the Value of all Property, Plant and Equipment less accumulated depreciation.

"Non-Recourse Indebtedness" shall mean any Indebtedness secured by a Lien on Property of any Obligated Issuer, liability for which is effectively limited to the Property subject to such Lien, with no recourse, directly or indirectly, to any other Property of any Obligated Issuer.

"Note" shall mean any note issued under the Master Indenture by an Obligated Issuer to evidence Long-Term Indebtedness or Short-Term Indebtedness incurred pursuant to the terms of the Master Indenture.

"Obligated Group" shall mean all Obligated Issuers.

"Obligated Group Agent" shall mean the Corporation and any successor Obligated Group Agent appointed pursuant to the Master Indenture.

"Obligated Issuer" shall mean (i) the Corporation, Blue Ridge Medical Management Corporation, Norton Community Hospital, Smyth County Community Hospital and each other Person which becomes an Obligated Issuer in accordance with the provisions of the Master Indenture, whether or not such Person has issued any obligations thereunder, and which has not withdrawn from the Obligated Group, and (ii) when used in respect of any particular Obligation or other Indebtedness, shall mean the obligor thereunder.

"Obligations" shall mean all Notes and Indenture Guaranties issued under the Master Indenture, any lease, contractual agreement to pay money or other obligations of any Obligated Group Member issued under the Master Indenture and any additional forms of Obligations created pursuant to the Master Indenture.

"Officer's Certificate" shall mean a certificate signed, in the case of a corporation, by the Chairman, Vice Chairman, President or Chief Financial Officer or, in the case of a certificate delivered by any other Person, the chief executive or chief financial officer of such Person, in either case whose authority to execute such certificate shall be evidenced to the satisfaction of the Master Trustee. When an Officer's Certificate is required under the Master Indenture to set forth matters relating to one or more Obligated Issuers, such Officer's Certificate may be given in reliance upon another certificate, or other certificates, and supporting materials, if any, provided by any duly authorized officer of the applicable Obligated Issuer.

"Opinion of Bond Counsel" shall mean an opinion in writing signed by an attorney or firm of attorneys experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

"Paying Agent" means the bank or banks, if any, designated pursuant to a Related Bond Indenture to receive and disburse the principal of and interest on any Related Bonds or designated pursuant to the Master Indenture to receive and disburse the principal of and interest on any Obligations.

"Permitted Investments" shall mean the following:

A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership

2. Farmers Home Administration (FmHA)
Certificates of beneficial ownership

3. Federal Financing Bank

4. Federal Housing Administration Debentures (FHA)

5. General Services Administration
Participation certificates

6. Government National Mortgage Association (GNMA or "Ginnie Mae")
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
(not acceptable for certain cash-flow sensitive issues)

7. U.S. Maritime Administration
Guaranteed Title XI financing

8. U.S. Department of Housing and Urban Development (HUD) Project Notes
Local Authority Bonds
New Communities Debentures- U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds- U.S. government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
Senior debt obligations

2. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
Participation Certificates
Senior debt obligations

3. Federal National Mortgage Association (FNMA or "Fannie Mae")
Mortgage-backed securities and senior debt obligations

4. Student Loan Marketing Association (SLMA or "Sallie Mae")
Senior debt obligations

5. <u>Resolution Funding Corp.</u> (REFCORP) obligations

6. <u>Farm Credit System</u>
Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aal or Aa2.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

G. Commercial paper rated, at the time of purchase, "Prime- 1" by Moody's and "A-1" or better by S&P.

H. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

I. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - I" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

J. Repurchase agreements ("repos") which provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Bond Trustee, and the transfer of cash from the Bond Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Bond Trustee in exchange for the securities at a specified date.

1. Repos must be between the Bond Trustee and a dealer bank or securities firm as follows:

a. Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Standard & Poor's Corporation and Moody's Investor Services, or

b. Banks rated "A" or above by Standard & Poor's Corporation and Moody's Investor Services.

2. The written repo contract must include the following:

a. Securities which are acceptable for transfer are:

(1) Direct U.S. governments, or

(2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

b. The collateral must be delivered to the Bond Trustee (if the Bond Trustee is not supplying the collateral) or third party acting as agent for the Bond Trustee (if the Bond Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

c. Term and Valuation of Collateral

(1) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the Bond Trustee, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

(2) If the term of the repo is more than 30 days, the Bond Trustee must value the collateral no less frequently than monthly and must liquidate collateral if any deficiency in the required value of the collateral set forth above is not restored within two business days of such valuation.

K. Guaranteed investment contracts or similar agreements providing for a specified rate of return over a specified time period with entities rated in one (1) of the two (2) highest rating categories of Standard & Poor's Corporation and Moody's Investor Services.

"Permitted Liens" shall mean the Master Indenture, all Related Financing Documents and, as of any particular time:

(i) Any lien from any member of the Obligated Group to any other member of the Obligated Group;

(ii) Any judgment lien or notice of pending action against any member of the Obligated Group so long as (1) such judgment or pending action is being contested and execution thereon has been stayed or the period for responsive pleading or appeal has not lapsed, or (2) in the absence of such contest, neither the pledge and security interest of this Indenture nor any Property of any member of the Obligated Group will be materially impaired or subject to material loss or forfeiture;

(iii) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law affecting any Property, to (1) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not, in the opinion of the Obligated Group Agent, materially impair the use of such Property or materially and adversely affect the value thereof, or (2) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property; (B) any liens (or deposits to obtain the release of such liens) on any Property for taxes, assessments, levies, fees, water and sewer charges, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed; (C) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not, in the opinion of the Obligated Group Agent, materially impair the use of such Property or materially and adversely affect the value thereof; (D) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not, in the opinion of the Obligated Group Agent, materially impair the use of such Property or materially and adversely affect the value thereof; and (E) to the extent that it affects title to any Property, the Master Indenture;

(iv) Any lease which relates to Property of the Obligated Group which is of a type that is customarily the subject of such leases, including but not limited to any leasehold interest required under any Related Financing Documents, leases with respect to office space for physicians and educational institutions, food service facilities, gift shops and radiology or other hospital-based specialty services, pharmacy and similar departments and statutory landlord's liens with respect to such leases;

(v) Any Lien securing Indebtedness provided such Lien also secures all Obligations (other than Obligations representing Subordinated Indebtedness or Non-Recourse indebtedness) on a parity basis;

(vi) Any Lien arising by reason of good faith deposits in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any member of the Obligated Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(vii) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or government regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any member of the Obligated Group to maintain self insurance or to participate in any funds established to cover any insurance risks or in connection with workers compensation, unemployment insurance, pension or profit sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements;

(viii) Any Lien arising by reason of an Escrow Deposit;

(ix) (A) Any Lien in favor of a trustee or the holder of a Note on the proceeds of Indebtedness or cash or investments deposited with such trustee and acquired with such proceeds prior to the application of such proceeds or cash or investments and (B) Liens in favor of a trustee, including the Master Trustee, to secure obligations to compensate, reimburse or indemnity such trustees;

(x) Any Lien on moneys deposited by patients or others with any member of the Obligated Group as security for or as prepayment for the cost of patient care;

(xi) Any Lien on Property received by any member of the Obligated Group through gifts, grants or bequests, such Lien being due to restrictions on such gifts, grants or bequests of property or the income thereon;

(xii) Statutory rights of the United States of America by reason of federal fund made available under 42 U.S.C. §§ 291 et seq. and similar rights under other federal and state statutes;

(xiii) Liens existing at the time of a Consolidation or Merger permitted under the Master Indenture, on the date of acquisition of any Property or at the time a Person becomes an Obligated Issuer; provided that no such Lien (or the amount of indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of any member of the Obligated Group not subject to such Lien on such date, unless such Lien as so extended, renewed or modified shall be offered as security for all Obligations hereunder;

(xiv) Any Lien described in Exhibit A to the Master Indenture, provided that no such Lien (or the amount of indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of any member of the Obligated Group not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien under the Master Indenture;

(xv) A security interest in any funds or accounts established pursuant to the provisions of any Related Financing Documents;

(xvi) Liens in the form of purchase money security interests in Property financed with the proceeds of Indebtedness secured thereby;

(xvii) Liens securing any Indebtedness permitted under the Master Indenture, provided that the Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent to the effect that not more than 20% of the Value of all Net Property, Plant and Equipment of the Obligated Group would be subject to a Lien (excluding any purchase money security interest permitted under subsection (xvi) above and the Lien created under the Master Deed of Trust for the purpose of making such calculation);

(xviii) Liens on accounts receivable arising as a result of sale of such accounts receivable with recourse, provided that such liens shall be limited to 25% of net accounts receivable outstanding;

(xix) Options granted by any member of the Obligated Group to others to purchase real property or other assets of such member; provided, however, that the sale pursuant to such option would be permitted under the conditions described in the Master Indenture; and

(xx) Liens on any Property that is not encumbered by the Master Deed of Trust so long as the aggregate amount secured by such Liens does not exceed $5,000,000.

"Person" shall mean an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated organization, a governmental unit or an agency, political subdivision or instrumentality thereof or any other group or organization of individuals.

"principal" when used to refer to the amount of the Obligations, shall mean (i) the principal amount of any Obligation that constitutes Indebtedness; (ii) with respect to an Indenture Guaranty, the principal amount guaranteed; (iii) with respect to a Hedge Agreement, five percent (5%) of the notional amount of such Hedge Agreement as in effect from time to time; (iv) with respect to a Credit Facility, the amount disbursed by the issuer of the Credit Facility and not reimbursed on the date the principal amount is determined; (v) with respect to Discounted Indebtedness, the accreted value of such Discounted Indebtedness at the time the determination is made computed on the basis of a constant yield to maturity; and (vi) with respect to any other type of Obligations, the amount specified in the Supplemental Indenture creating such Obligation.

"Proceeds" shall mean "proceeds" as such term is defined in the Uniform Commercial Code as in effect in any relevant jurisdiction or under other relevant law and, in any event, shall include, but shall not be limited to, (i) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to any Obligated Issuer from time to time, and claims for insurance, indemnity, warranty or guaranty effected or held for the benefit of the Corporation, with respect to any of the Collateral, (ii) any and all payments (in any form whatsoever) made or due and payable to the any Obligated Issuer from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any Government Authority (or any person acting under color of Government Authority) and (iii) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Project" means the project financed with the proceeds of the Bonds.

"Projected Debt Service Coverage Ratio" shall mean for any future period of time, the ratio determined by dividing projected Total Income Available for Debt Service for such period by Maximum Annual Debt Service of the Obligated Group.

"Property" means any and all rights, titles and interests in and to any and all assets of a person, including all real or personal property, all tangible or intangible property, and all cash, wherever such assets are situated.

"Property, Plant and Equipment" shall mean all Property which is classified as property, plant and equipment under generally accepted accounting principles.

"Qualified Financial Corporation" shall mean a bank, trust company, national banking association, insurance company or other financial services company whose unsecured long-term debt obligations (in the case of a bank, trust company, national banking association or other financial services company) or whose claims paying abilities (in the case of an insurance company) are rated in any of the three highest rating categories (without reference to sub-categories) by the Rating Agency. For purposes hereof, the term "financial services company" shall include any investment banking firm or any affiliate or division thereof which may be legally authorized to enter into the transactions described in the Master Indenture pertaining, applicable or limited to a Qualified Financial Corporation.

"Rating Agency" shall, mean severally or collectively, if applicable (i) Standard & Poor's Ratings Group and any successor thereto, if it has assigned a rating to any Obligation issued and outstanding under the Master Indenture or any Related Bonds issued and outstanding pursuant to any Related Financing Documents, (ii) Moody's Investors Service, Inc. and any successor thereto, if it has assigned a rating to any Obligation issued and outstanding under the Master Indenture or any Related bonds issued and outstanding pursuant to any Related Financing Documents, and (iii) Fitch's IBCA Inc. and any successor thereto, if it has assigned a rating to any Obligation issued and outstanding pursuant to any Related Financing Documents. If any such Rating Agency shall no longer perform the functions of a securities rating service for whatever reason, the term "Rating Agency" shall thereafter be deemed to refer to the others, but if both of the others shall no longer perform the functions of a securities rating service for whatever reason, term "Rating Agency" shall thereafter be deemed to refer to any other nationally recognized rating service or services as shall be designated in writing by the Obligated Group Agent to the Master Trustee; provided that such designee shall not be unsatisfactory to the Master Trustee.

"Receivables" shall mean any "Account" as such term is defined in the Uniform Commercial Code as in effect in any relevant jurisdiction and in any event shall include, but not be limited to, all of any Obligated Issuer's rights to payment for goods (including, without limitation, steam and electricity) sold or leased, or for services performed, by such Obligated Issuer, whether now in existence or arising from time to time hereafter, including, without limitation, rights evidenced by an account, note, contract, security agreement, chattel paper, or other evidence of indebtedness or security, together with (i) all security pledged, assigned, hypothecated or granted to or held by any Obligated Issuer to secure the foregoing, (ii) all of such Obligated Issuer's right, title and interest in and to any goods (including, without limitation, steam and electricity), the sale of which gave rise thereto, (iii) all guarantees, endorsements and indemnifications on, or of, any of the foregoing, (iv) all powers of attorney for the execution of any evidence of indebtedness or security or other writing in connection therewith, (v) all books, correspondence, credit files, records, ledger cards, invoices, and other papers relating thereto, including without limitation all similar information stored on a magnetic medium or other similar storage device and other papers and documents in the possession or under the control of any Obligated Issuer or any computer bureau from time to time acting for such Obligated Issuer, (vi) all evidences of the filing of financing statements and other statements and the registration of other instruments in connection therewith and amendments thereto, notices to other creditors or secured parties, and certificates from filing or other registration officers, (vii) all credit information, reports and memoranda relating thereto, and (viii) all other writings related in any way to the foregoing.

"Regularly Scheduled Qualified Swap Payments" means the regularly scheduled payments under the terms of a Hedge Agreement which are due or receivable absent any termination, default or dispute in connection with such Hedge Agreement.

"Related Bond Indenture" shall mean any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

"Related Bond Issuer" shall mean the Government Issuer of any issue of Related Bonds.

"Related Bond Trustee" shall mean the trustee and its successors in the trust created under any Related Bond Indenture, and if there is no such trustee, shall mean the Related Bond Issuer.

"Related Bonds" shall mean the revenue bonds, notes, other evidences of indebtedness or any other obligations issued by a Government Issuer, pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to an Obligated Issuer in consideration of the execution, authentication and delivery of a Note to or for the order of such Government Issuer.

"Related Financing Documents" shall mean:

(a) in the case of any Note, (i) all documents, including any Related Bond Indenture, pursuant to which the proceeds of the Note are made available to an Obligated Issuer, the payment obligations evidenced by the Note are created and any security for the Note (if permitted under this Indenture) is granted, and (ii) all documents creating any additional payment or other obligations on the part of an Obligated Issuer which are executed in favor of the Holder in consideration of the Note proceeds being loaned or otherwise made available to the Obligated Issuer;

(b) in the case of any Indenture Guaranty, all documents creating the indebtedness being guaranteed pursuant to the Indenture Guaranty and providing for the loan or other disposition of the proceeds of the indebtedness and all documents pursuant to which any security for the Indenture Guaranty (if permitted under the Master Indenture) is granted; and

(c) in the case of Indebtedness other than Notes and Indenture Guaranties, all documents relating thereto which are of the same nature and for the same purpose as the documents described in clauses (a) and (b) above.

"Revenues" means all revenues, income, receipts and other money received or accrued by or on behalf of any Obligated Issuer from any source whatsoever, including, without limitation, proceeds derived from (i) insurance except where otherwise provided herein, (ii) all accounts and assignable general intangibles now owned or hereafter acquired by any Obligated Issuer, and all proceeds therefrom whether cash or noncash, all as defined in Article 9 of the Uniform Commercial Code, as enacted by the State of Tennessee, (iii) the sale of goods, inventory and other tangible and intangible property, (iv) agreements respecting Medicare, Medicaid and Blue Cross or similar or successor programs, and (v) all gifts, grants, bequests, contributions and donations made to any Obligated Issuer, including the income and profits therefrom.

"Short-Term Indebtedness" shall mean all Indebtedness other than Long-Term indebtedness.

"State" shall mean the State of Tennessee.

"Subordinated Indebtedness" shall mean any promissory note, guaranty, lease, contractual agreement to pay money or other obligation of any Obligated Issuer which is expressly made subordinate and junior in right of payment of principal of, redemption premium, if any, and interest on, (i) all Obligations issued pursuant to the Master Indenture, and (ii) all other obligations of the Obligated Group under the Master Indenture, on terms and conditions which substantially require that (1) no payment on account of principal of, redemption premium, if any, or interest on such Subordinated Indebtedness shall be made, nor shall any property or assets be applied to the purchase or other acquisition or retirement of such Subordinated Indebtedness, unless full payment of all amounts when due and payable upon maturity of Obligations issued under the Master Indenture have been made or duly provided for in accordance with the terms of such Obligations; (2) no payment on account of principal of, redemption premium, if any, or interest on such Subordinated Indebtedness shall be made, nor shall any property or assets be applied to the purchase or other acquisition or retirement of such Subordinated Indebtedness if, at the time of such payment or application, or immediately after giving effect thereto, (i) there shall exist a default in the payment of the principal of, redemption premium, if any, or interest on any Obligations (whether at maturity or upon mandatory redemption), or (ii) there shall have occurred an Event of Default with respect to any Obligations, as defined therein and in this Indenture, and such Event of Default shall not have been cured or waived or shall not have ceased to exist; and (3) in the event that any Subordinated Indebtedness is declared or otherwise becomes due and payable because of the occurrence of an event of default with respect thereto, (x) the Holders at such time shall be entitled to receive payment in full thereon before the holders of the Subordinated Indebtedness shall be entitled to receive any payment on account of such Subordinated Indebtedness as a result of such event of default, and (y) no holder of Subordinated Indebtedness, or a trustee acting on such holder's behalf, shall be entitled to exercise any control over proceedings to enforce the terms and conditions of the Master Indenture.

"Tax Agreement" means the Tax Exemption Certificate and Agreement by and among the Issuer, the Corporation and the Bond Trustee, including all appendices, certificates and attachments thereto, executed on the date of issuance and delivery of the Bonds, as it may be amended from time to time.

"Tax-Exempt Organization" shall mean a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxes under Section 501(a) of the Code, and which is not a "private foundation" within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"Thirty-Fourth Supplemental Indenture" means the Thirty-Fourth Supplemental Indenture, dated as of September 1, 2012, between the Alliance and the Master Trustee.

"Total Income Available for Debt Service" shall mean, as to any period, (a) the aggregate of Income Available for Debt Service of each member of the Obligated Group for such period, determined in such a manner that no portion of Income Available for Debt Service of any member of the Obligated Group is included more than once.

"Total Net Operating Revenues" shall mean, as to any period, the aggregate of Net Operating Revenues of each member of the Obligated Group for such period, determined in such a manner that no portion of Net Operating Revenues of any member of the Obligated Group is included more than once.

"Unrestricted Liquid Funds" as of any date means the aggregate of the unrestricted and unencumbered/unpledged cash and unrestricted and unencumbered/unpledged liquid securities (valued at fair market value) of the Obligated Group as of such date (including board-designated funds) from which there shall be subtracted each of the following: (i) the value of all self-insured professional and general liability insurance obligations of the Obligated Group determined by an independent actuary as of such date, (ii) any funds held by the lender or trustee with respect to any Long Term Indebtedness (including any debt service reserve fund, any debt service or bond fund or any construction or project fund), (iii) any proceeds drawn from a line of credit, liquidity facility or other similar facility, and (iv) any grantor or donor restricted funds.

"Value," when used in connection with any Property, shall mean either (a) Book Value, or (b) at the election of the Obligated Group Agent evidenced by an Officer's Certificate delivered to the Master Trustee, the aggregate fair market value of such Property, as reflected in the most recent written report of an appraiser selected by the Obligated Group Agent and, in the case of real property, who or which is a member of the American Institute of Real Estate Appraisers (MAI), delivered to the Master Trustee (which report shall be dated not more than three years prior to the date as of which value is to be calculated) (i) increased or decreased by the cost of any Property acquired, or the fair market value of any Property disposed of, since the date of such report and (ii) increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which value is to be calculated.

"Variable Rate Indebtedness" shall mean any portion of Indebtedness the interest rate on which fluctuates subsequent to the time of incurrence.

"Written Request" means with reference to a Related Issuer, a request in writing signed by the Chairman, Vice-Chairman, Executive Director, Associate Executive Director, Mayor, Clerk, President, Vice President, Secretary or Assistant Secretary of the Related Issuer and with reference to any Obligated Issuer means a request in writing signed by the President or a Vice President of such Obligated Issuer or any other officers designated in a certificate delivered to the Bond Trustee by the Related Issuer or such Obligated Issuer, as the case may be.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

Each Obligation will be issued pursuant to the Master Indenture and will entitle each holder thereof to the protection of the covenants, restrictions and other obligations imposed upon the Corporation and each Obligated Issuer by the Master Indenture and the security provided for therein.

Accounting Principles

Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation, combination or other accounting computation is required to be made for the purposes of the Master Indenture or any agreement, document or certificate executed and delivered in connection with or pursuant to the Master Indenture, such determination or computation shall be done in accordance with generally accepted accounting principles in effect on (i) the date of the delivery of the Master Indenture, or (ii) at the election of the Obligated Group Agent, as specified in an Officer's Certificate delivered to the Master Trustee, the date such determination or computation is made for any purpose of the Master Indenture, such accounting principles, to the extent applicable, consistently applied; provided that intercompany balances and liabilities among the Obligated Issuers shall be disregarded and that the requirements set forth in this paragraph shall prevail, if inconsistent with generally accepted accounting principles. In the event that the fiscal year of any Obligated Issuer ends on a date other than the last day of a Fiscal Year, the character or amount of any asset or liability or item of income or expense of such Obligated Issuer for its fiscal year ending within any Fiscal Year under consideration shall be deemed to be the character or amount of the appropriate asset or liability or item of income or expense for such Fiscal Year. For purposes of calculating Total Income Available for Debt Service and Total Net Operating Revenues for any period, if any Obligated Issuer shall have become a member of the Obligated Group during such period, such calculations shall be made assuming that such Obligated Issuer became a member of the Obligated Group at the beginning of such period.

Master Indenture Obligations

Each Obligated Issuer is permitted to issue one or more series of Obligations under the Master Indenture on which all Obligated Issuers will be jointly and severally liable. The terms of each Obligation shall be set forth in a Supplemental Indenture.

The principal of, premium, if any, and interest on the Obligations shall be payable in any currency of the United States of America which is legal tender for the payment of public and private debts. Such payment shall be made at the principal corporate trust office of the Master Trustee or, if an Obligated Issuer so elects, by check, draft or wire transfer to such Holder. In the case of all payments made directly to a Holder, the Obligated Issuer shall give notice of such payment to the Master Trustee concurrently with the making thereof.

Each Obligated Issuer, jointly and severally, unconditionally guarantees to the Holders of the Obligations and to the Master Trustee the due and punctual payment of the principal of, and interest on, the Obligations and all other amounts due and payable under the Master Indenture; provided, however, that the maximum aggregate liability of each Obligated Issuer, as of any date, shall be its Maximum Guaranty Liability as of such date.

Each Obligated Issuer shall be subrogated to all rights of the Holders of the Obligations and the Master Trustee against the other Obligated Issuers in respect of any amounts paid pursuant to the Master Indenture.

If any Person ceases to be an Obligated Issuer, such Person shall cease to be a "Cross Guarantor" under the Master Indenture, and its Obligations as such shall be terminated and released; provided, however, that the foregoing provision is inapplicable (i) if such Person ceases to be an Obligated Issuer as a result of a transaction which is prohibited by the terms of the Master Indenture or (ii) if, at the time such Person would otherwise have been released under the provisions of this paragraph, there has occurred and is continuing a default in the payment of principal, or interest, on any Obligation.

If an Obligated Issuer is called upon to make a payment under its Cross Guarantee, each of the Obligated Issuers shall contribute to such paying Obligated Issuer their pro rata share, determined pursuant to the Master Indenture, of the amount of such payment.

All Obligations shall be executed for and on behalf of an Obligated Group Member by the officer as specified in the Master Indenture or such other officer designated in writing. A resolution of the Governing Body of the Obligated Group Agent shall also be joined thereto. Further, each Obligation shall be manually authenticated, in the form provided in the Master Indenture, by an authorized signer of the Master Trustee, without which authentication no Obligation shall be valid or entitled to the benefits of the Master Indenture.

The Master Trustee shall maintain at its principal corporate trust office a registration book relating to Obligations of the Obligated Group. These registration books shall contain (i) the names and addresses of Holders of Obligations, and (ii) any other information which may be necessary for the proper discharge of the Master Trustee's duties under the Master Indenture. The Supplemental Indenture, providing for the issuance thereof, shall govern the transfer or exchange of any Obligation.

If any Obligation is mutilated, lost, stolen or destroyed, the Holder thereof shall be entitled to the issuance of a substitute Obligation only as follows:

(i) In the case of a lost, stolen or destroyed Obligation, the Holder shall: provide notice of the loss to the Obligated Group Agent, or to the Master Trustee; request the issuance of a substitute Obligation before the Obligated Group Agent receives notice of the transfer of the original Obligation to a bona fide purchaser for value without notice; provide indemnity to the Master Trustee against any and all claims arising out of, or otherwise related to, the issuance of substitute Obligations; and shall surrender any Obligation which have not been lost, stolen or destroyed and provide evidence of the ownership of the affected Obligation and the loss, theft or destruction thereof;

(ii) In the case of a mutilated Obligation the Holder shall: surrender the Obligation to the Master Trustee for cancellation; and provide indemnity to the Master Trustee against any and all claims arising out of, or otherwise related to, the issuance of substitute Obligations.

Every substituted Obligation shall constitute an additional contractual obligation of the Obligated Group, whether or not the Obligation alleged to have been destroyed, lost or stolen shall be at any time enforceable by anyone, and shall be entitled to all the benefits of the Master Indenture equally and proportionately with any and all other Obligations, unless the Obligation alleged to have been destroyed, lost or stolen shall be at any time enforceable by a bona fide purchaser for value without notice.

The preceding provisions regarding substitute Obligations are exclusive with respect to the replacement or payment of mutilated, destroyed, lost or stolen Obligations and shall preclude any and all other rights or remedies, notwithstanding any law or statute existing or later enacted to the contrary.

The Master Trustee shall establish and maintain a revenue or similar debt service fund for the purpose of accumulating and paying amounts due on outstanding Obligations (i) if the applicable Supplemental Indenture provides for the making of deposits directly with the Master Trustee in respect of an Obligation, or (ii) upon the occurrence of an Event of Default under the Master Indenture and the exercise of any remedies by the Master Trustee for the benefit of all Holders of outstanding Obligations. All money held in any fund established under the Master Indenture, in the case of (i) above, shall, upon written request and direction of the Obligated Group Agent, be invested in Investment Securities, and any money realized by the Master Trustee in the case of (ii) above, shall be invested by the Master Trustee, without need of any further authorization or direction, only in Government Obligations with maturities not in excess of ninety days, unless the Master Trustee is otherwise directed by Holder. The Master Trustee shall not be liable or responsible for any loss resulting from any such investment.

Any Obligated Issuer and the Master Trustee may enter into a Supplemental Indenture to create an Obligation issued under the Master Indenture. The Supplemental Indenture shall (i) with respect to Obligations created thereby, set forth the date thereof, and the date or dates on which principal of, premium, if any, and interest on such Obligations shall be payable, and (ii) provide for the form of such Obligations and shall contain such other terms and provisions as shall not be inconsistent with the provisions of the Master Indenture.

Simultaneously with or prior to the execution, authentication and delivery of the Obligations pursuant to the Master Indenture:

(a) All requirements and conditions to the issuance of such Obligations, if any, set forth in the Master Indenture and the Supplemental Indenture shall have been complied with and satisfied;

(b) The applicable Obligated Issuer or the Obligated Group Agent shall have delivered to the Master Trustee such opinions, certificates, proceedings, instruments and other documents as the Master Trustee or the Related Bond Issuer, if any, may reasonably request;

(c) The requirements of the Master Indenture with respect to the incurrence of Additional Indebtedness shall have been satisfied if such Obligations constitute Indebtedness;

(d) Each Supplemental Indenture shall specify the purpose or purposes for which such Obligations are being issued, which may be any purpose within the corporate power of the applicable Obligated Issuer; and

(e) The Obligated Group Agent shall have delivered to the Master Trustee an opinion of counsel, regarding the Securities Act of 1933 and the Trust Indenture Act of 1939, as required pursuant to the Master Indenture.

Security For Obligations

As security for the payment and performance of all outstanding Obligations, the Obligated Issuers shall grant the Master Trustee a security interest in (i) all money and Investment Securities which may at any time be held by the Master Trustee in any fund or account which may be established by the Master Trustee under the Master Indenture in connection with the administration of the trusts created thereby, (ii) all Gross Receipts, (iii) all Receivables, (iv) all Inventory, (v) all Equipment, (vi) all General Intangibles, (vii) all Contracts and all Contract Rights, (viii) all amounts from time to time held in any checking, savings, deposit or other account of any Obligated Issuer, (ix) all Government Approvals, provided, that any Government Approval which by its terms or by the operation of law would become void, voidable, terminable or revocable if mortgaged, pledged or signed under the Master Indenture or if a security interest therein were granted thereunder or expressly accepted and excluded from the security interest hereby granted to the extent necessary so as to avoid such voidness, voidability, terminability or revocability, (x) all Fixtures, including but not limited to those now or hereafter attached to, placed on or incorporated in the Land, (xi) all Revenues, (xii) without limiting the generality of the foregoing, all other personal property, goods, Instruments, Investment Property, Chattel Paper, Documents, credits, claims, demands and assets of any Obligated Issuer, whether now existing or hereafter acquired from time to time, and (xiii) any and all additions and accessions to any of the foregoing, all improvements thereto, all substitutions and replacements therefor and all products and Proceeds thereof (all of the above collectively, the “Collateral”), to have and to hold in trust for the benefit of the Holders from time to time of all Obligations issued and outstanding under the Master Indenture, without preference or priority of any one Obligation over any other Obligation except as otherwise expressly provided therein. The security interest granted to the Master Trustee pursuant to the Master Indenture extends to all Collateral of the kind which is subject to such security interest which any Obligated Issuer may acquire at any time during the continuation of the Master Indenture, whether such Collateral is in transit or in such Obligated Issuer, the Issuer’s or any other Person’s constructive, actual or exclusive occupancy or possession.

To further secure the payment of and performance under all outstanding Obligations, the Corporation has, on even date herewith, executed and delivered to the Master Trustee the Master Deed of Trust.

If (i) in any Fiscal Year beginning with the Fiscal Year ending June 30, 2006, the Historical Maximum Annual Debt Service Coverage Ratio of the Obligated Group is less than 1.50 to 1, (ii) the Obligated Group is not in compliance with the liquidity covenant described under the caption “Liquidity Covenant” herein, or (iii) an Event of

Default has occurred and is continuing, the Obligated Group Agent shall cause a special trust fund (the "Revenue Fund") to be created with one or more banking institutions and each Obligated Issuer shall on a daily basis deposit all of its Gross Receipts therein.

The Obligated Group Agent shall cause each banking institution with which the Revenue Fund has been established to enter into a written depository agreement, which shall be satisfactory in form and substance to the Master Trustee and shall be in substantially the form of such agreement heretofore delivered to the Master Trustee (or with such changes therein as shall have been approved by the Holders of not less than 75% in aggregate principal amount of Obligations then outstanding) pursuant to which such banking institution shall agree to hold any and all Gross Receipts from time to time on deposit with such banking institution as assets of a trust for the Holders of the Obligations and to transfer such Gross Receipts to the Master Trustee upon receipt from the Master Trustee of a notice stating that delivery of such Gross Receipts is required pursuant to the Master Indenture. Prior to its receipt of a request from the Master Trustee, any Obligated Group member may transfer or expend all or any part of its Gross Receipts free of any security interest, subject, however, to the provisions of the Master Indenture. Deposits of Gross Receipts shall be made into the Revenue Fund on a daily basis, insofar as practicable, for the benefit of the Master Trustee and the Holders of the Obligations. Upon the request of the Obligated Group Agent, the Master Trustee will provide to such agent a written certifications as to whether there is currently outstanding a request from the Master Trustee.

Each Obligated Issuer agrees that except as may be otherwise provided in the Master Indenture, it will not pledge or grant a security interest in any of the Gross Receipts.

Each Obligated Issuer agrees that, if an Event of Default shall have occurred and be continuing, it will, upon request of the Master Trustee, deliver or direct to be delivered to the Master Trustee all Gross Receipts until such Event of Default has been cured, such Gross Receipts to be applied in accordance with the Master Indenture.

The Master Trustee shall establish and maintain a revenue or similar debt service fund hereunder for the purpose of accumulating and paying amounts due on outstanding Obligations (i) if the applicable Supplemental Indenture specifically provides for the making of deposits directly with the Master Trustee in respect of an Obligation, or (ii) upon the occurrence of an Event of Default and the exercise of any remedies by the Master Trustee for the benefit of all Holders of outstanding Obligations; provided, however, if neither (i) nor (ii) are at the time applicable but deposits to the Revenue Fund are then required under subsection (a) above, the Obligated Group Agent may deposit the Gross Receipts with one or more banking institutions (other than the Master Trustee) and such revenues shall, upon the request and direction of the Obligated Group Agent, be invested in Investment Securities. In the case of (i) above, deposits to any such fund and payments therefrom shall be made in accordance with the terms and provisions of the applicable Supplemental Indenture for the making of deposits into and payments from such fund. In the case of (ii) above, any moneys realized by the Master Trustee upon the exercise of any such remedies shall be applied in accordance with the provisions of the Master Indenture. All money held at any time in any fund in the case of (i) above, shall, upon written request and direction of the Obligated Group Agent, be invested in Investment Securities and any money realized by the Master Trustee in the case of (ii) above, shall be invested by the Master Trustee, without need of any further authorization or direction, only in Government Obligations having maturities not in excess of 90 days, unless the Master Trustee is otherwise directed by Holders in the manner provided in the Master Indenture.

Persons Becoming Obligated Issuers; Withdrawal from Obligated Group

The Master Indenture permits Persons other than the Corporation to become members of the Obligated Group subject to the satisfaction of certain conditions. The conditions include the following:

First, such Person shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Obligated Group Agent, containing (i) the agreement of such Person to become an Obligated Issuer under the Master Indenture and thereby to become subject to compliance with all provisions of the Master Indenture pertaining to an Obligated Issuer, including the performance and observance of all covenants and obligations of an Obligated Issuer under the Master Indenture; (ii) the agreement of such Person to consult with each other member of the Obligated Group prior to incurring any Obligations; and (iii) such other restrictions on the ability of such Person to incur Obligations as shall be imposed by the Obligated Group. Such Person shall execute and deliver to the

Master Trustee such security agreements, financing statements and other documents as are necessary to grant to the Master Trustee a perfected lien in all Collateral in which such Person has an interest.

Second, each instrument executed and delivered to the Master Trustee in accordance with the preceding paragraph shall be accompanied by an Officer's Certificate from the Obligated Group Agent to the effect that the Obligated Group Agent consents to such Person becoming an Obligated Issuer and an opinion of Counsel to the effect that (a) the conditions contained in the Master Indenture relating to such Person's membership in the Obligated Group have been satisfied; (b) under then existing law, such Person becoming an Obligated Issuer will not subject any Obligation to the registration provisions of the Securities Act of 1933, as amended, or that such Obligation has been so registered if so required, or the qualification of the Master Indenture pursuant to the Trust Indenture Act of 1939, as amended, or that the Master Indenture has been so qualified if qualification is required; and (c) each such instrument has been duly authorized, executed and delivered by such Person and constitutes a legal, valid and binding agreement, enforceable in accordance with its terms, except as limited by then-existing laws relating to bankruptcy and insolvency and other standards and customary legal exceptions.

If all amounts due or to become due on any outstanding Related Bond which bears interest that is not includable in gross income under the Code has not been paid to the holder thereof (or provision for such payment has not been made in such manner as to have resulted in the defeasance of the Related Financing Documents), the Master Trustee shall receive an Opinion of Bond Counsel to the effect that under then existing law such Person becoming an Obligated Issuer would not adversely affect the validity of such Related Bond or cause the interest payable on such Related Bond to become includable in gross income under the Code.

As a further condition to a Person becoming a member of the Obligated Group, the Master Trustee shall receive an Officer's Certificate from the Obligated Group Agent to the effect that (A) no Event of Default then exists under the Master Indenture, nor to such officer's knowledge, does there then exist any event which, with the passage of time or giving of notice or both, would or might become an Event of Default under the Master Indenture; (B) either (1) if one dollar of Additional Indebtedness were incurred immediately following such Person's admission, the Obligated Group would meet the test providing for the incurrence of Long-Term Indebtedness pursuant to subsection (a)(i) or (ii) under the heading "Additional Long-Term Indebtedness" (assuming, for purposes of such certificate, that the Income Available for Debt Service and Indebtedness of such Person were Income Available for Debt Service and Indebtedness of an Obligated Issuer), or (2) such Person becoming a member of the Obligated Group will cure any Event of Default then in existence under the Master Indenture, or (3) by reason of such membership, the Projected Debt Service Coverage Ratio for each of the two Fiscal Years following such entry into the Obligated Group will be greater than the projected Debt Service Coverage Ratio for such Fiscal Years had such entry into the Obligated Group not occurred; (C) immediately after such person's admission, the combined fund balance and net worth, as the case may be, of the Obligated Group is not less than 90% of such combined fund balance and net worth immediately prior to such admission; and (D) the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group (taking into account the admission of such Person) for each of the two most recent Fiscal Years for which consolidated or combined financial statements reported upon by an independent certified public Accountant are available was not less than 1.30 to 1.

As a further condition to a Person becoming a member of the Obligated Group, the Master Trustee shall receive a Consultant's report to the effect that the Projected Debt Service Coverage Ratio of the Obligated Group (taking into account the admission of such Person) for each of the two Fiscal Years following the admission of such Person is not less than 1.3:1.

The Corporation shall not withdraw from the Obligated Group. No other Obligated Issuer may withdraw from the Obligated Group unless:

(i) If the Obligated Issuer is other than the Obligated Group Agent, the Obligated Group Agent consents to the withdrawal;

(ii) If all amounts due on any outstanding Related Bond which bears interest that is not includable in gross income under the Code have not been paid to the holder thereof (or provision for such payments has not been made in such manner as to have resulted in the defeasance of the Related Financing Documents), the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Person's withdrawal from the Obligated Group would not adversely affect the validity of such Related Bond or cause the interest payable on such Related Bond to become includable in gross income under the Code;

(iii) The Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent to the effect that either (1) after giving effect to such withdrawal, if one dollar of Additional Indebtedness were incurred, the Obligated Group would meet the test providing for the incurrence of Long- Term Indebtedness pursuant to subsection (a)(i) or (ii) under the heading "Additional Long-Term Indebtedness," or (2) such Person's withdrawal from the Obligated Group will cure any Event of Default then in existence under the Master Indenture, or (3) by reason of such withdrawal, the Projected Debt Service Coverage Ratio for each of the two Fiscal Years immediately following withdrawal of such Obligated Issuer from the Obligated Group will be greater than the Projected Debt Service Coverage Ratio for such Fiscal Years had such withdrawal not occurred;

(iv) The Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent to the effect that, immediately after the withdrawal of such Person from the Obligated Group, no Event of Default then exists under the Master Indenture, nor to such officer's knowledge, does there then exist any event which, with the passage of time or giving of notice or both, would or might become an Event of Default; and

(v) The Master Trustee shall have received a Consultant's report to the effect that the Projected Debt Service Coverage Ratio of the Obligated Group (taking into account the withdrawal of such Person) for each of the two Fiscal Years following the withdrawal of such Person is not less than 1.3:1;

(vi) The Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent to the effect that the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group (taking into account the withdrawal of such Obligated Issuer) for each of the two most recent Fiscal Years for which consolidated or combined financial statements reported upon an independent certified public Accountant are available was not less than 1.30 to I; and

(vii) The Obligated Group Agent shall have received an opinion of Counsel to the effect that following such Person's withdrawal from the Obligated Group no member of the Obligated Group will have any liability for the payment of any indebtedness of such Person.

Upon compliance with the above conditions, the Master Trustee shall execute any documents reasonably requested by the withdrawing Obligated Issuer to evidence the termination of such Issuer's obligations under the Master Indenture, under any Supplemental Indenture and under all Obligations.

Short-Term Indebtedness

Each Obligated Issuer agrees that it will not incur, nor permit any of its Restricted Affiliates to incur, any Additional Indebtedness constituting Short-Term Indebtedness unless immediately after the incurrence of such Short- Term Indebtedness:

(a) (i) the principal amount of all Short-Term Indebtedness of the Obligated Group then outstanding does not exceed 20% of the Total Net Operating Revenues for the most recent Fiscal Year for which consolidated or combined financial statements reported upon by an independent certified public Accountant are available, or

(ii) any such Short-Term Indebtedness could be incurred under the tests set forth in the Master Indenture (relating to Long-Term Indebtedness) treating such Short-Term Indebtedness as Long-Term Indebtedness, and

(b) For a period of not fewer than 15 consecutive days within each Fiscal Year, the Obligated Group shall reduce the aggregate principal amount of all outstanding Short-Term Indebtedness described in (a)(i) above to less than 5% of the Total Net Operating Revenues for the immediately preceding Fiscal Year.

Additional Long-Term Indebtedness

Each Obligated Issuer agrees that it will not incur nor permit any of its Restricted Affiliates to incur, any Additional Indebtedness constituting Long-Term Indebtedness unless such Long-Term Indebtedness consists of one or more of the following:

(a) Long-Term Indebtedness of any member of the Obligated Group, if prior to the incurrent thereof, there is delivered to the Master Trustee:

(i) an Officer's Certificate of the Obligated Group Agent demonstrating that the Historical Pro Forma Debt Service Coverage Ratio for the most recent Fiscal Year for which consolidated or combined financial statements reported upon by an independent certified public Accountant are available was not less than 1.35; or

(ii) (A) an Officer's Certificate of the Obligated Group Agent demonstrating that the Historical Maximum Annual Debt Service Coverage Ratio for the most recent Fiscal Year for which consolidated or combined financial statements reported upon by an independent certified public Accountant are available was not less than 1.25, and (B) a Consultant's report (or, in lieu thereof, an Officer's Certificate of the Obligated Group Agent if the Projected Debt Service Coverage Ratio described in this subsection (B) is 1.75 or greater) to the effect that the Projected Debt Service Coverage Ratio, taking the proposed Additional Indebtedness into account, (x) in the case of Additional Indebtedness (other than a Guaranty) to finance capital improvements, for each of the two Fiscal Years succeeding the date on which such capital improvements are expected to be in operation, or (y) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, for each of the two Fiscal Years succeeding the date on which the Indebtedness or Guaranty is incurred, is not less than 1.40.

The requirements of (a)(ii)(A) and (B) will be deemed satisfied if (i) a Consultant's report filed with the Master Trustee states that applicable laws or regulations have prevented or will prevent the achievement of such debt service coverage ratios, (ii) the Obligated Group has generated Total Income Available for Debt Service in an amount which, in the opinion of such Consultant, the Obligated Group could reasonably have generated given such laws and regulations during the period affected thereby.

(b) Completion Indebtedness of any member of the Obligated Group without limit if there is delivered to the Master Trustee: (i) an Officer's Certificate of the applicable member of the Obligated Group stating that at the time the original Long-Term Indebtedness for the Facilities to be completed was incurred, such Obligated Group member had reason to believe that the proceeds of such Long-Term Indebtedness, together with other moneys then expected to be available, would provide sufficient moneys for the completion of such Facilities; (ii) a statement of an Architect or an expert setting forth the amount estimated to be needed to complete the Facilities, and (iii) an Officer's Certificate of such member of the Obligated Group stating that the proceeds of such Completion Indebtedness to be applied to the completion of the Facilities, together with a reasonable estimate of investment income to be earned on such proceeds and the amount of moneys, if any, committed to such completion by such Obligated Group member or through enumerated bank loans (including letters or lines of credit) or through federal or state grants, will be in an amount not less than the amount set forth in the statement of an architect or other expert referred to in (ii).

(c) Commitment Indebtedness of any member of the Obligated Group or any Guaranty of any Commitment Indebtedness of any member of the Obligated Group without limit.

(d) Long-Term Indebtedness of any member of the Obligated Group incurred for the purpose of refunding, repurchasing or refinancing (whether in advance or otherwise) any outstanding Long-Term Indebtedness;

provided, however, that additional Long-Term Indebtedness permitted under this paragraph (d) shall not result in an increase in Maximum Annual Debt Service in excess of 10%.

(e) The conversion without limit of Long-Term Indebtedness of any member of the Obligated Group that is convertible from one interest or payment made to another interest or payment (e.g., weekly to monthly or to a fixed rate) from one mode to another pursuant to the terms of the documentation authorizing such Long-Term Indebtedness.

(f) Subordinated Indebtedness without limit of any member of the Obligated Group or Non-Recourse Indebtedness without limit of any member of the Obligated Group; provided, however, that in the case of Subordinated Indebtedness, the Obligated Group Agent shall have furnished the Master Trustee with a certificate showing that prior to the issuance of such Subordinated Indebtedness, the debt to capitalization ratio of the Obligated Group does not exceed 60%.

(g) Indebtedness incurred in connection with a sale of not more than 25% of accounts receivable with recourse by any member of the Obligated Group consisting of an obligation to repurchase all or a portion of such accounts receivable upon ce1iain conditions, provided that the principal amount of such Indebtedness permitted shall not exceed the aggregate sales price of such accounts receivable received by such Obligated Group member.

(h) Long-Term Indebtedness of any member of the Obligated Group, the principal amount of which at the time incurred, together with the aggregate principal amount of all other Long-Term Indebtedness and Short-Term Indebtedness of the Obligated Group then outstanding, does not exceed 25% of the Total Net Operating Revenues for the most recent Fiscal year for which consolidated or combined financial statements reported upon by an independent certified public Accountant are available.

Guaranties

Each Obligated Issuer agrees that it will not enter into, or become liable in respect of, or permit any Restricted Affiliate to enter into, or become liable in respect of, any Guaranty dated after the date of the Master Indenture unless the principal amount of the indebtedness being guaranteed could then be incurred as Indebtedness described under the heading "Additional Long-Term Indebtedness," taking into account the assumptions as to calculating the aggregate annual principal and interest payments on, and the principal amount of, the indebtedness being guaranteed, contained in the immediately succeeding paragraph.

In the case of Guaranties of indebtedness that would, if such indebtedness were incurred by a member of the Obligated Group, constitute Long-Term Indebtedness, the aggregate annual principal and interest payments on, and the principal amount of, the Guaranty shall be deemed to be equal to 20% of the principal and interest payments which would be payable on the indebtedness being guaranteed as if such indebtedness were Long-Term Indebtedness of the Guarantor. If at any time the Guaranty becomes due and payable, or if any payment has been made under the Guaranty during the two immediately preceding Fiscal Years, the aggregate annual principal and interest payments on, and the principal amount of, the Guaranty shall, for purposes of this paragraph, be deemed to equal 100% of the principal and interest payable on, and the principal amount of, the indebtedness being guaranteed for the Fiscal Year for which such determination is being made.

Debt Service on Balloon Indebtedness and Variable Rate Indebtedness

For purposes of the covenants and computations required or permitted pursuant to the Master Indenture, it shall be assumed that (A) the interest rate on Variable Rate Indebtedness is equal to the higher of (a) the current rate on the Variable Rate Indebtedness or (b) that rate that is the average of the rate of interest which was in effect on the last day of each of the twelve preceding full calendar months immediately preceding the month in which such calculation is made, provided that if the Variable Rate Indebtedness has not been outstanding for at least twelve full calendar months, the assumed rate of interest for such Variable Rate Indebtedness shall be the rate of interest borne on the date such Variable Rate Indebtedness was issued, and (B) the principal of Balloon Indebtedness is amortized:

(i) from the date of calculation thereof over a term equal to twenty (20) years, with level annual debt service payments at an assumed interest rate equal to the Bond Index (provided if the Balloon Indebtedness is also Variable Rate Indebtedness, the assumed interest rate may, at the option of the Obligated Group Agent, be the assumed interest rate applicable to Variable Rate Indebtedness); or

(ii) during the term to the maturity thereof by deposits made to a sinking fund therefor pursuant to the terms of such Balloon Indebtedness or in accordance with a sinking fund schedule established by resolution of the Governing Body of the applicable Obligated Issuer adopted at or subsequent to the time of incurrence of such Balloon Indebtedness, as certified in an Officer's Certificate, provided that, at the time of such calculation, all deposits required to have been made prior to such date shall have been made; or

(iii) the principal of Balloon Indebtedness is due and payable on the specified due date or due dates thereof; or

(iv) with respect to Balloon Indebtedness for which there exists a Credit Facility, the principal of such Balloon Indebtedness is due and payable in the amounts and at the times specified in the Credit Facility.

Insurance

Each Obligated Issuer will maintain, or cause to be maintained, insurance covering such risks and in such amounts as, in its reasonable judgment, is adequate to protect it and its Property and operations, including (to the extent that such Obligated Issuer is a health care institution) professional liability or medical malpractice insurance, one year's business interruption insurance (if commercially available) and extended coverage property insurance in an amount sufficient to avoid co-insurance. The Master Trustee shall be named as an additional insured on all such insurance policies. The Obligated Group Agent shall retain an Insurance Consultant who will prepare and file with the Master Trustee a report showing the adequacy of such insurance once every two years (such report to be filed as soon as practicable but in no event later than five months after the end of the applicable second Fiscal Year). Each Obligated Issuer will follow any recommendations of the Insurance Consultant to the extent feasible in the opinion of the Obligated Group Agent.

In lieu of maintaining the insurance policies required above, the Obligated Group, or any member thereof, may self-insure any of the required coverages (or a portion thereof), provided that the Obligated Group may not self-insure any required coverage with respect to Property, Plant and Equipment and provided further that the Master Trustee receives a report (as soon as practicable but in no event later than five months after the end of each Fiscal Year) of an Insurance Consultant to the effect that such self-insurance is consistent with proper management and insurance practices. If any member of the Obligated Group elects to self-insure in lieu of maintaining medical liability and malpractice insurance, a report of an Insurance Consultant shall be filed with the Master Trustee annually stating that such Insurance Consultant has reviewed the self-insurance program and that the self-insured Obligated Group Member has available the estimated amount required for the payment of claims and associated claims expenses with respect to such Fiscal Year.

In the event of damage to or destruction of all or any part of the Facilities of the Obligated Group with a Value in excess of five percent (5%) of the Value of all Property of the Obligated Group, the affected Obligated Group member or the Obligated Group Agent shall exercise its best efforts to recover any applicable insurance. Such proceeds shall be paid to the Obligated Group Agent for the payment or reimbursement of reasonable expenses of obtaining the recovery. The Obligated Group Agent shall then give notice to the Master Trustee of such expenses and of the amount of the remaining proceeds (herein called the "Net Proceeds").

Subject to the provisions of any Related Financing Document pertaining to a Permitted Lien, the affected Obligated Group member shall apply the Net Proceeds for any lawful corporate purpose as such Obligated Group member determines, if the Obligated Group Agent shall first have delivered to the Master Trustee an Officer's Certificate stating that the Projected Debt Service Coverage Ratio for each of the next two full succeeding Fiscal Years immediately following the date of such certificate(s), taking into account such damage or destruction and the proposed use of the Net Proceeds is at least 1.10. If the Obligated Group Agent is unable to deliver the foregoing

Officer's Certificate, the affected Obligated Group member shall apply the Net Proceeds or so much thereof as may be needed to the repair, replacement, restoration or reconstruction of the affected Facilities or, at the option of the applicable Obligated Group member, to any other capital project of equivalent value and utility, to the acquisition of any Property or to the repayment in whole or in part of any outstanding Obligations in such order of maturity or maturities or proportions as the Obligated Group Agent shall determine.

Any Net Proceeds remaining after compliance by the affected Obligated Group member and the Obligated Group Agent with the immediately preceding paragraph shall be transferred by the Obligated Group Agent to the Master Trustee and applied to the redemption of the outstanding Obligations that directly finance the damaged or condemned facilities and are secured thereby, second to other direct outstanding Obligations of the affected Member of the Obligated Group, and third to the redemption of other outstanding Obligations in such order of maturity or maturities or proportions as the Obligated Group Agent shall determine.

In the event of a taking by eminent domain of all or any part of the Facilities of the Obligated Group with a Value in excess of five percent (5%) of the Value of all Property of the Obligated Group, the affected Obligated Group member or the Obligated Group Agent shall exercise its best efforts to recover any applicable proceeds. Such proceeds shall be paid to the Obligated Group Agent. The Obligated Group Agent shall make appropriate deductions from such proceeds and give notice to the Master Trustee of such deductions and of the amount of the remaining proceeds (also, "Net Proceeds"). The Net Proceeds shall be applied in the same manner as insurance proceeds are applied pursuant to the two immediately preceding paragraphs.

Certain Covenants of the Obligated Issuers

Each Obligated Issuer covenants, among other things, to maintain its corporate or other separate legal existence and to be qualified to do business where such qualification is necessary, to maintain and keep its Facilities in good repair, to conduct its affairs in compliance with all applicable laws and regulations, to pay all lawful taxes and governmental charges and assessments levied or assessed upon or against it or its Property (except that each Obligated Issuer may withhold such payments where the validity of such taxes and assessments is being contested in good faith), to comply with any covenants and provisions of any Liens upon its property or securing any of its Indebtedness, to procure and maintain all necessary licenses and permits, to maintain accreditation of its health care Facilities and its status as a provider of health care services eligible for reimbursement under government programs (provided, however, that it need not comply with the requirements pertaining to licenses, permits, accreditation and its status as a provider if and to the extent its Governing Body shall have determined in good faith, evidenced by an Officer's Certificate that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its indebtedness when due).

In addition, each Obligated Issuer covenants not to merge with or consolidate with any other Person not a member of the Obligated Group or sell or convey all or substantially all of its assets to any Person not a member of the Obligated Group unless: (a) the successor corporation (if other than the Obligated Issuer) shall be a Person organized and existing under the laws of the United States of America or a state thereof and such Person shall become an Obligated Issuer and shall expressly assume the due and punctual payment of the principal of, premium, if any, and interest on all outstanding Obligations according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture by a Supplemental Indenture satisfactory to the Master Trustee, executed and delivered to the Master Trustee by such Person; (b) if all amounts due or to become due on any outstanding Related Bonds which bear interest that is not includable in gross income under the Code have not been fully paid to the holders thereof (or provision for such payment has not been made in such manner as will result in the defeasance of the Related Financing Documents), the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on the date of the delivery of any such Related Bonds, would not cause the interest payable on such Related Bonds to become includable in gross income under the Code or adversely affect the validity of such Related Bonds; and (c) there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Agent to the effect that immediately following such transaction, (A) no Event of Default then exists nor, to such officer's knowledge, does there exist any event which, with the passage of time or the giving of notice or both, would or might become an Event of Default under the Master Indenture, and (B) either (1) if one dollar of Additional Indebtedness were incurred, the Obligated Group would meet the tests providing for the incurrence of Long-Term

Indebtedness described in subsection (a)(i) or (ii) under the heading Additional Long-Term Indebtedness (assuming for purposes of such Certificate that the Income Available for Debt Service and Indebtedness of such person were Income Available for Debt Service and Indebtedness of an Obligated Issuer), or (2) such transaction will cure any Event of Default then in existence under the Master Indenture, or (3) by reason of such transaction, the Projected Debt Service Coverage Ratio for each of the two Fiscal Years following such release will be greater than the Projected Debt Service Coverage Ratio for such Fiscal Years had such transaction not occurred, and (C) the combined fund balance and net worth, as the case may be, of the Obligated Group will not be less than 90% of such combined fund balance and net worth immediately prior to such transaction.

In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor.

In case of any such consolidation, merger, sale or conveyance, such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued as may be appropriate.

Permitted Encumbrances

No Obligated Issuer will create or suffer to be created or to exist (or permit any Restricted Affiliate to create or suffer to be created or to exist) any Lien upon any of their Property including, without limitation, all proceeds thereof, whether cash or non-cash, now owned or after acquired by any of them, other than Permitted Liens.

Disposition of Property

Each Obligated Issuer agrees that neither it will sell, lease or otherwise dispose of any Property, except for sales, leases or other dispositions of Property:

(a) To another member of the Obligated Group;

(b) To any Person if prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate stating that, in the judgment of the officer executing such certificate, such Property has become, or within the next succeeding 24 calendar months is reasonably expected to become, inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property;

(c) To any Person provided that prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Agent certifying (1) that Property transferred pursuant to this section in the then-current Fiscal Year by all Obligated Issuers does not exceed 5% of the Value of all Property of the Obligated Group for the immediately preceding Fiscal Year and (2) that Property transferred pursuant to this section in the then-current Fiscal Year and in each of the immediately preceding three Fiscal Years by all Obligated Issuers does not in the aggregate exceed 15% of the Value of all Property of the Obligated Group for the immediately preceding Fiscal Year;

(d) To any Person provided that prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Agent, to the effect that immediately after the transfer in question, either (1) if one dollar of Additional Indebtedness were incurred, the Obligated Group would meet the test providing for the incurrence of Long-Term Indebtedness pursuant to subsection (a)(i) or (ii) above contained under the heading Additional Long-Term Indebtedness or (2) such disposition will increase the Projected Debt Service Coverage Ratio in the Fiscal Year immediately following such disposition over what such ratio would have been in such Fiscal Year had such disposition not occurred;

(e) As part of a merger, consolidation, sale or conveyance permitted under the heading "Certain Covenants of the Obligated Issuers";

(f) In the ordinary course of business;

(g) To any Person in connection with an operating lease of Property to such Person;

(h) Upon fair and reasonable terms no less favorable than would be obtained in a comparable arm's-length transaction;

(i) To any Person if the transfer involves any Property received as restricted gifts, grants, bequests or other similar sums or the income thereon, to the extent that such sums may not be pledged or applied to the payment of any Debt Service Requirement or operating expenses generally as a result of restrictions or designations imposed by the donor or maker of the gift, grant, bequest or other sums in question; or

(j) To any Person so long as such Property is not encumbered by the Master Deed of Trust and the amount of Property transferred pursuant to this subsection U) in any Fiscal Year shall not exceed $5,000,000.

To the extent that any Property of the Corporation that is permitted to be sold, leased or otherwise disposed of under the foregoing is encumbered by the Master Deed of Trust or the Master Indenture, upon receipt of an Officer's Certificate directing the Master Trustee to execute a release and/or termination statement with respect to such property to be sold, the Master Trustee shall execute and deliver to the Corporation a release and/or termination statement with respect to such property; provided, however, that no real property encumbered by the Master Deed of Trust shall be sold, leased or otherwise disposed of unless (1) such sale, lease or disposition is permitted under one of the provisions above and the Value of the Property being sold, leased or otherwise disposed of does not exceed $2,500,000 or (2) such Property is sold for fair market value (as determined by an appraisal delivered to the Master Trustee), provided that if such sales is of real property having an aggregate Book Value in excess of$15,000,000, the Corporation shall deliver to the Master Trustee an Officer's Certificate of the Obligated Group Agent to the effect that immediately after the transaction in question the Obligated Group (i) will have a Days Cash on Hand Ration equal to or greater than 50 (110 as long as any Related Bonds remain outstanding that are insured by the Bond Insurer or any amounts are owed by any member of the Obligated Group to the Bond Insurer unless waived by the Bond Insurer) and (ii) will be in compliance with the provisions of the Master Indenture relating to rates and charges. In the event that any Property is released from the Master Deed of Trust pursuant to clause (2) of the immediately preceding sentence, the consideration received by the Corporation from the sale of such Property shall be applied to acquisition, construction or equipping of facilities for use by the Obligated Group or to the option redemption or defeasance of outstanding Related Bonds. Notwithstanding the foregoing, if outstanding Related Bonds are insured by the Bond Insurer at the time of any sale, the Corporation may not sell any Property pursuant to clause (2) of this paragraph unless the Corporation encumbers additional real property pursuant to the Master Deed of Trust with a Value not Jess than the Value of the Property being released that is approved in writing by the Bond Insurer or the Bond Insurer otherwise consents to such sale.

Filing of Financial Statements, Certificate of No Default, Other Information

The Obligated Group Agent covenants that it will:

(a) As soon as practicable but in no event later than four months after the end of each Fiscal Year, file, or cause to be filed, with the Master Trustee and, if such Persons are then providing a rating with respect to Obligations or any Related Bonds, with each Rating Agency, (i) a combined or consolidated revenue and expense statement of the Corporation, and each other Obligated Issuer, for such Fiscal Year and (ii) a combined or consolidated balance sheet of the Corporation and each other Obligated Issuer as of the end of such Fiscal Year, each accompanied by the required report of an Accountant.

(b) As soon as practicable but in no event later than four months after the end of each Fiscal Year, file with the Master Trustee, an Officer's Certificate of the Obligated Group Agent stating the Historical Debt Service Coverage Ratio and the Historical Maximum Annual Debt Service Coverage Ratio for such Fiscal year, stating that all insurance required by the Master Indenture has been obtained and is in full force and effect, and stating whether or not to the best knowledge of the signers, any Obligated Issuer is in default in the performance of any covenant contained in the Master Indenture, and, if so, specifying each such default of which the signers may have knowledge, and an Officer's Certificate stating the Historical Debt Service Coverage Ratio and the Historical Maximum Annual Debt Service Coverage Ratio for such fiscal year, provided, if either such ratio is less than 1.75 to

1.00, such Officer's Certificate shall be accompanied by a certificate of the accountant whose report accompanies the financial statements referred to in (a) above stating such ratios.

(c) If an Event of Default shall have occurred and be continuing, (i) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs (or of any consolidated group of companies of which it is a member) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records and personnel records and (ii) provide access to its Facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request.

(d) Within 10 days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Indenture requires to be prepared by a Consultant or an insurance consultant.

(e) As soon as practicable, but in no event later than 45 days after the end of each fiscal quarter, file, or cause to be filed, with the Master Trustee (i) a combined or consolidated revenue and expense statement of the Corporation and each other Obligated Issuer for such quarter, and (ii) a combined consolidated balance sheet presented on the basis described above as of the end of such quarter.

(f) Cause the information described in subsections (a), (b) and (e) above, including the calculations described in subsections (b) and (e) above, in each case any holder of $1,000,000 or more in aggregate principal amount of Related Bonds who has requested such of the Corporation in writing (it being understood that such request may be a standing request).

Rates and Charges

Each Obligated Issuer covenants and agrees to operate, and to cause each of its Restricted Affiliates to operate on a revenue producing basis and to charge, and to cause each of its Restricted Affiliates to charge, such fees and rates for its Facilities and services and to exercise, and to cause each of its Restricted Affiliates to exercise, such skill and diligence as to provide income from its Property together with other available funds sufficient to pay promptly all payments of principal and interest on its Indebtedness, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture to the extent permitted by law, and to use its best efforts to maintain in each Fiscal Year beginning with the Fiscal Year ending June 30, 2001 a ratio of Total Income Available For Debt Service to Maximum Annual Debt Service at least equal to 1.30. Each Obligated Issuer further covenants and agrees that it will from time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of this Section.

If in any Fiscal Year beginning with the Fiscal Year ending June 30, 2001 the Historical Maximum Annual Debt Service Coverage Ratio of the Obligated Group is less than 1.30, the Master Trustee shall require the Obligated Group, at the expense of the Obligated Group, to retain a Consultant to make recommendations with respect to the rates, fees and charges of the Obligated Group and its methods of operation and other factors affecting its financial condition in order to increase such Historical Maximum Annual Debt Service Coverage Ratio to at least 1.30.

A copy of the Consultant's report and recommendations, if any, and any written responses from management of the Corporation, shall be filed with each Obligated Issuer, the Master Trustee, each Related Bond Trustee and each Related Issuer and, upon written request to the Corporation, any holder of at least $1,000,000 in aggregate principal amount of Related Bonds. Each Obligated Issuer shall follow each recommendation of the Consultant applicable to it to the extent feasible (as determined by the Governing Body of such Obligated Issuer) and permitted by law. This Section shall not be construed to prohibit any Obligated Issuer from serving indigent patients to the extent required for such Obligated Issuer to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients without charge or at reduced rates so long as such service does not prevent the Obligated Group from satisfying the other requirements of this Section. So long as the Obligated Group shall retain a Consultant and shall follow such Consultant's recommendations to the extent permitted by law, this Section shall be deemed to have been complied with even if such ratio for any subsequent Fiscal Year is below 1:30:1; provided, however, that in no event shall the Historical Maximum Annual Debt Service Coverage Ratio for any year be less than 1:00:1.

Notwithstanding the provisions of the immediately preceding paragraph, if by the end of the second Fiscal Year after the Fiscal Year (beginning with the Fiscal Year ending June 30, 2001) for which the Obligated Group failed to achieve a Historical Maximum Annual Debt Service Coverage Ratio of at least 1.3:1 the Obligated Group has not achieved a Historical Maximum Annual Debt Service Coverage Ratio of at least 1.3:1, the Obligated Group shall be deemed to be in violation of the provisions of the Master Indenture.

The selection of any Consultant retained pursuant to this section and the scope of such Consultant's activities and recommendations shall be subject to the approval of the Bond Insurer and ratification by each of the Holders of the two largest principal amounts of Uninsured Obligations; provided that the ratification by such Holders shall not be unreasonably withheld.

Liquidity Covenant

The Obligated Group shall maintain Unrestricted Liquid Funds as of the last day of each Fiscal Year to produce a Days Cash on Hand Ratio equal to or greater than 75.

Accreditation

The Corporation shall not fail to maintain any accreditation status currently held by the Corporation with respect to its hospital facilities unless it provides the Master Trustee with a Consultant's opinion to the effect that failure to maintain any such accreditation will not adversely affect the Corporation's hospital facilities. Notwithstanding the foregoing, this Section shall not be construed to require the Corporation to continue to operate any hospital facility or to maintain any accreditation for any hospital facility that is closed.

Hedge Agreements*

The members of the Obligated Group may not enter into a Hedge Agreement without the prior written consent of the Bond Insurer (so long as any outstanding Related Bonds are insured by the Bond Insurer) unless the following conditions are met:

(a) The Hedge Agreement must be entered into as a hedge against (i) swaps currently outstanding (as in basis swaps or reverse swaps), or (ii) debt then outstanding or to be issued, or (iii) as a means of achieving forward transactions, or (iv) against assets held at the time of the execution of the Hedge Agreement;

(b) The Hedge Agreement does not contain any element of leverage or multiplier component in excess of 1.0x unless there is a matching hedge arrangement which effectively offsets the exposure from any such element or component;

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* By their purchase of the Series 2012A Bonds, the initial holders thereof will consent to an amendment of this section. The amended section will read as follows:

> **Hedge Agreements**. The members of the Obligated Group may not enter into a Hedge Agreement unless the following conditions are met:
>
> (a) The Hedge Agreement must be entered into as a hedge against (i) swaps currently outstanding (as in basis swaps or reverse swaps), or (b) debt then outstanding or to be issued, or (iii) as a means of achieving forward transactions, or (iv) against assets held at the time of the execution of the Hedge Agreement;
>
> (b) The Hedge Agreement does not contain any element of leverage or multiplier component in excess of 1.0x unless there is a matching hedge arrangement which effectively offsets the exposure from any such element or component;
>
> (c) The uninsured payment due upon termination of any Hedge Agreement shall be subordinate in right of payment to all Obligations under the Master Indenture issued with respect to the Insured Bonds.
>
> (d) The Obligated Group shall not be in default under the Days Cash on Hand Ratio contained in Section 13.1(b)(iv) of this Master Indenture.
>
> (e) Notwithstanding the foregoing (a) through (d), the Corporation may assume the Hedge Agreements listed on Exhibit C attached to the Sixteenth Supplemental Master Trust Indenture that have been entered into by Mountain States Properties, Inc., an affiliate of the Corporation.

(c) If an amount equal to the Maximum Adverse Termination Payment (as defined below) of all of the Hedge Agreements of the Obligated Group, then in effect and those to be executed, determined as noted in (i) and (ii) below, at the time the new Hedge Agreement is to be entered into were excluded from unrestricted cash and investments, the Days Cash on Hand Ratio would still be satisfied:

(i) The Obligated Group Agent shall calculate the Maximum Adverse Termination Amount in three steps. First, the Obligated Group Agent will determine the actual mark-to-market value of all existing Hedge Agreements of the Obligated Group using standard mark-to-market methodology. Second, the Obligated Group Agent will calculate the Adverse Termination Amount (as defined below) of the contemplated derivative based on (ii) below. Third, the Adverse Termination Amount of the contemplated Hedge Agreement will be added to the actual mark-to-market value of all existing Hedge Agreements.

(ii) The methodology for calculating the Adverse Termination Amount for the contemplated Hedge Agreement depends on the type of swap it is. If the contemplated swap is a floating-to-fixed interest rate swap, a fixed-to-floating interest rates swap, or an option to enter into or cancel either of those structures, the Obligated Group Agent will calculate the present value of a 150 basis point loss using standard mark-to- market methodology and will assume taxable and tax-exempt rates both shift 150 basis points on the date of the calculation. This will result in the Adverse Termination Amount for the new swap. If the contemplated swap is a basis swap, a fixed spread basis swap, a constant maturity swap, a spread swap, or a similar structure (with or without an option), the Obligated Group Agent will calculate a 50 basis point loss by multiplying the absolute present value of one basis point in the then current market by -50 (negative fifty) to reflect an adverse change in ratios, spreads, rates, and other market conditions. This will result in the Adverse Termination Amount for the new swap.

(d) The Obligated Group's counterparty (or its guarantor) shall be rated at least "A+" or "AI" by a Rating Agent at the time the Hedge Agreement is entered into and a Credit Support Annex shall, or is required to, be executed to provide for collateral on a schedule that incorporates a zero threshold amount if any rating is below BBB+/Baal;

(e) Termination payments are payable only if and to the extent that after such payment the Obligated Group: (a) would still be in compliance with its Days Cash on Hand Ratio, assuming such payment had been excluded from unrestricted cash and investments in making such liquidity calculation and (b) would not be in default;

(f) Collateral for the payments due under the Hedge Agreement can be posted only to the extent that after such posting the Obligated Group would still be in compliance with the Days Cash on Hand Ratio assuming such posting had been excluded from unrestricted cash and investments in making such liquidity calculation;

(g) The uninsured payment due upon termination of any Hedge Agreement shall be subordinate in right of payment to all Obligations under the Master Indenture issued with respect to the Insured Bonds; and

(h) The term "Adverse Termination Amount" shall mean the amount if positive that would be required to be paid by a member of the Obligated Group that is the party to a Hedge Agreement upon the termination of the Hedge Agreement calculated in the manner provided in subsection (c)(ii) above, and the term "Maximum Adverse Termination Amount" shall be determined in accordance with subsection (c)(i) above.

Projected Debt Service Coverage Ratio

Anything in the Master Indenture to the contrary notwithstanding, in each instance in the Master Indenture in which the Projected Debt Service Coverage Ratio is to be evidenced by an Officer's Certificate, such Projected Debt Service Coverage Ratio must also be evidenced by a Consultant's report unless the Projected Debt Service Coverage Ratio in such Officer's Certificate is greater than 1.75:1.00.

Defaults and Remedies

The following events are “Events of Default” under the Master Indenture:

(a) failure of any Obligated Issuer to make any payment of principal, redemption price or interest when due under the terms of any Obligations and such failure continues to exist as of the end of any applicable grace period; or

(b) failure of any Obligated Issuer to observe or perform any covenant or agreement contained in the Master Indenture or any Related Financing Documents for any Obligations for a period of30 days after written notice of such failure, requiring the same to be remedied, has been given by the Master Trustee to each of the Obligated Issuers, the giving of which notice shall be at the discretion of the Master Trustee unless the Master Trustee is requested in writing to do so by the holders of at least 25% in aggregate principal amount of all outstanding Obligations, in which event such notice shall be given; provided, however, that if such observance or performance requires work to be done, actions to be taken, or conditions to be remedied, which by their nature cannot reasonably be don, taken or remedied, within such 30-day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as, the defaulting Obligated Issuer shall commence such observance or performance within such 30-day period and shall diligently and continuously prosecute the same to completion; or

(c) (i) default of any Obligated Issuer in the payment of any Indebtedness (other than Obligations issued and outstanding under the Master Indenture), the principal amount of which in the aggregate exceeds 5% of the Book Value of all Property of the Obligated Group for the immediately preceding Fiscal Year, whether such Indebtedness now exists or shall be created after the date of the Master Indenture and any grace period with respect thereto shall have expired, or (ii) any event of default as defined in any Related Financing Documents under which any such Indebtedness may be issued, secured or evidenced shall occur, which default in payment or event of default results in such Indebtedness becoming or being declared due and payable unless within the time allowed for service of a responsive pleading in any proceeding to enforce payment of the Indebtedness under the laws governing such proceeding (i) the Obligated Issuers commence proceedings to contest the existence or payment of such Indebtedness, and (ii) in the absence of such contest, neither the pledge and security interest created under the Master Indenture nor any Property of the Obligated Group will be materially impaired or subject to material loss or forfeiture; or

(d) bankruptcy, dissolution, liquidation or reorganization in bankruptcy of any Obligated Issuer or other similar events; or

(e) if the Hospital Maximum Annual Debt Service Coverage Ratio of the Obligated Group for any Fiscal Year is less than 1.0 to 1; or

(f) a breach of the Alliance’s covenant to file audited financial statements as described above under “Filing of Financial Statements, Certificate of No Default, Other Information” under paragraph (a) above thereof shall have occurred and be continuing; or

(g) a breach of the Alliance’s “Liquidity Covenant” as described above shall have occurred and be continuing.

Upon the occurrence of an Event of Default, the Master Trustee may, by notice in writing to the Obligated Issuers, declare the principal of all (but not less than all) outstanding Obligations to be immediately due and payable provided that the Master Trustee shall be required to make such a declaration (i) if an Event of Default has occurred under subsection (a) above, or (ii) if the Master Trustee is requested to make such a declaration by the Holders of not less than 25% in aggregate principal amount of all outstanding Obligations. If all Events of Default other than nonpayment of amounts that have become due as a result of such declaration are remedied, the Holders of 25% in aggregate principal amount of all Obligations may waive all Events of Default and rescind and annual such declaration of acceleration.

Any acceleration of the principal shall be subject to the condition that if, at any time after the principal of all outstanding Obligations shall have been accelerated, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered: (i) one or more Obligated Issuers shall deposit with the Master Trustee an aggregate sum sufficient to pay (A) all matured installments of interest upon all outstanding Notes and the principal and premium, if any, of all outstanding Notes due otherwise than by acceleration (with interest on overdue installments of interest, to the extent permitted by law and on such principal and premium, if any, at the respective rates borne by such Notes to the date of such deposit) and any other amounts required to be paid pursuant to such Notes, (B) all amounts due under each Indenture Guaranty other than by reason of acceleration, (C) all sums due under any Obligations other than Notes and Indenture Guaranties, other than by reason of acceleration, and (D) the expenses and fees of the Master Trustee; and (ii) any and all Events of Default under the Master Indenture, other than the nonpayment of principal of and accrued interest on outstanding Obligations that have become due by acceleration, shall have been remedied, then and in every such case, the Master Trustee shall, if requested by the Holders of twenty- five percent in aggregate principal amount of all Obligations then outstanding, waive all Events of Default and rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment shall extend to or effect any subsequent Event of Default.

The Master Trustee may, at any time that an Event of Default exists, (i) by written notice to the banking institutions in which any Gross Receipts are deposited pursuant to the requirements of the Master Indenture, direct that such funds be immediately transferred to the Master Trustee, and upon receipt of such funds the same shall be held in trust by the Master Trustee and disbursed as provided in the Master Indenture, and (ii) by written notice to the Obligated Issuers direct that all subsequent deposits of Gross Receipts be made with the Master Trustee.

Upon the occurrence of an Event of Default, as described in the Master Indenture, and upon demand of the Master Trustee, each Obligated Issuer will pay to the Master Trustee, for the benefit of the Holders of all outstanding Obligations, (a) the amount then due and payable on all Obligations for principal or interest, or both, and such other amounts as may be required to be paid on all such Obligations, with interest on the overdue principal and installments of interest (to the extent permitted by law) at the respective rates of interest borne by such Obligations or as is provided in the applicable Supplemental Indenture, and (b) such further amounts sufficient to cover the cost and expenses of collection, including a reasonable compensation to the Master Trustee, its agents, attorneys and counsel, and any expenses incurred by the Master Trustee other than as a result of its gross negligence or bad faith.

The Master Trustee may institute any actions or proceedings at law or in equity for the collection of the sums due and may collect such sums in the manner provided by law out of the Property of the Obligated Issuer wherever situated.

In case there shall be pending proceedings for the bankruptcy or for the reorganization of any Obligated Issuer, or in case a receiver or trustee shall have been appointed for its Property, the Master Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal, premium, if any, interest and any other amounts owing and unpaid in respect of Obligations, and, in case of any judicial proceedings, to file such proofs of claim and other papers as may be necessary or advisable in order to have the claims of the Master Trustee and of the Holders of the Obligations allowed in such judicial proceedings relative to such member of the Obligated Group, its creditors or its Property, and to collect and receive any moneys or other Property payable or deliverable on any such claim and to distribute the same after the deduction of its charges and expenses.

All rights of action and rights to assert claims under any Obligation may be enforced by the Master Trustee without the possession of such Obligation. In any proceedings brought by the Master Trustee (and also any proceedings involving the interpretation of any provision of the Master Indenture to which the Master Trustee shall be a party) the Master Trustee shall be held to represent all the Holders of Obligations, and it shall not be necessary to make any Holders of Obligations parties to such proceedings.

Application of Moneys Collected

Any amounts collected by the Master Trustee in connection with the exercise of any rights and remedies following an Event of Default and, except as otherwise provided in the Master Indenture, all money and Investment

Securities on deposit in any funds which the Master Trustee may establish under the Master Indenture from time to time shall be applied for the equal and ratable benefit of the Holders of Obligations in the following order at the date or dates fixed by the Master Trustee for the distribution of such moneys, upon presentment of such Obligations, and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

(a) to the payment of costs and expenses of collection, including fees of Counsel and reasonable compensation to the Master Trustee; and, thereafter,

(b) whether or not the principal of all outstanding Obligations shall have become or have been declared due and payable to Holders of the outstanding Obligations for amounts due and unpaid on the Obligations, ratably, without preference or priority of any kind, according to the amounts due and payable on the Obligations; provided that for the purpose of determining the unpaid amount of any Obligation, there shall be deducted the amount, if any, which has been realized by the Holder by exercise of its rights as a secured party with respect to any Liens permitted pursuant to the Master Indenture or is on deposit in any fund established pursuant to any Related Financing Documents for such Obligations (other than amounts consisting of payments of principal and interest previously made and credited against the payments due under such Obligations) as of the date of payment by the Master Trustee pursuant to this subsection (b), all as certified to the Master Trustee by the Holder; and

(c) to the payment of the remainder, if any, to the Obligated Group Agent, its successors or assigns, or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

Actions by Holders

(a) No Holder of an Obligation shall have any right by virtue of or by availing of any provision of the Master Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to the Master Indenture or for the appointment of a receiver or trustee, or any other remedy, unless the Holders of not less than 25% in aggregate principal amount of Obligations then outstanding shall have made written request upon the Master Trustee to institute such action, suit or proceeding in its own name as Master Trustee and shall have offered to the Master Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities which may be incurred therein or thereby, and the Master Trustee, for 30 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding and no direction inconsistent with such written request shall have been given to the Master Trustee; it being understood and intended, and being expressly covenanted by the Holder of an Obligation and the Master Trustee, that no one or more Holders of Obligations shall have any right in any manner whatever by virtue of or by availing of any provision of the Master Indenture to affect, disturb or prejudice the rights of any other Holder of an Obligation or to obtain or seek to obtain priority over or preference to any other such Holder, or to enforce any right under the Master Indenture, except in the manner therein provided and for the equal, ratable and common benefit of all Holders of Obligations. For the protection and enforcement of these provisions, each and every Holder of an Obligation and the Master Trustee shall be entitled to such relief as can be given either at law or in equity.

(b) The Holder of an Obligation instituting a suit, action or proceeding in compliance with the provisions outlined herein and more fully set forth in the Master Indenture shall be entitled to such suit, action or proceeding to such amounts as shall be sufficient to cover the costs and expenses of collection, including to the extent permitted by applicable law, a reasonable compensation to its Counsel.

(c) Notwithstanding any other provision of the Master Indenture, the right of a Holder of an Obligation to receive payment of the principal of and interest on any Obligation and any other amounts payable thereunder, on or after the respective due dates expressed in such Obligation, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder, provided that any moneys collected through the exercise of rights and remedies of any Holder against any Obligated Issuer pursuant to the Related Financing Documents for an Obligation (other than rights and remedies relating to Liens permitted pursuant to the Master Indenture or to funds and accounts established under such Related Financing Documents) shall be paid over to the Master Trustee or, with the consent of the Holder, collected directly by the Master Trustee.

Direction of Proceedings by Holders

The Holders of 75% in aggregate principal amount of Obligations then outstanding shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred on the Master Trustee; provided, however, that, subject to its right to be indemnified in the Master Indenture, the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee, being advised by Counsel, determines that the action so directed may not lawfully be taken, or if the Master Trustee in good faith shall, by a responsible officer or officers of the Master Trustee, determine that the proceedings so directed would be illegal or involve it in personal liability, and provided further that nothing in the Master Indenture shall impair the right of the Master Trustee in its direction to take any action deemed proper by the Master Trustee and which is not inconsistent with such direction by the Holders.

Delay or Omission of Master Trustee

No delay or omission of the Master Trustee, or of any Holder of an Obligation, to exercise any right or power accruing upon an Event of Default shall impair any such right or power, or be construed as a waiver of any Event of Default or an acquiescence therein, nor shall the action of the Master Trustee or of the Holders of Obligations in case of any Event of Default, or in case of any Event of Default and subsequent waiver of such Event of Default, affect or impair the rights of the Master Trustee or of such Holders in respect of any subsequent Event of Default or any right resulting therefrom.

Remedies Cumulative

No remedy under the Master Indenture is intended to be exclusive of any other remedy, but each and every other such remedy shall be cumulative, and shall be in addition to the remedies pursuant to the Master Indenture; and the employment of any remedy under the Master Indenture or otherwise, shall not prevent the concurrent employment of any such other appropriate remedy or remedies. In the pursuit of any such remedies, the Master Trustee shall have and be vested with the rights of a secured creditor under the Tennessee Uniform Commercial Code (or similar laws of other jurisdictions as applicable) with respect to moneys collected by the Master Trustee pursuant to any provision of the Master Indenture, and shall have the power to foreclose any Lien which may be granted to it as Master Trustee under the Master Indenture, all to the extent permitted by law.

Notice of Default

The Master Trustee shall, within 10 days after the occurrence of an Event of Default known to the Trustee, mail to all Holders of Obligations, as the names and addresses of such Holders appear upon the books maintained by the Master Trustee, and, as long as the Initial Obligation remains outstanding, to the Bond Insurer, notice of such Event of Default under the Master Indenture known to the Master Trustee, unless such Event of Default shall have been cured before the giving of such notice; provided that, except above under "Defaults and Remedies," the Master Trustee shall be protected in withholding such notice if and so long as the Master Trustee in good faith determines that the withholding of such notice is in the interest of the Holders of the Obligations. For purposes of the Master Indenture, matters shall not be considered to be known to the Master Trustee unless an officer of its corporate trust department located at its principal corporate trust office has actual knowledge thereof.

Concerning the Master Trustee

Prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred, the Master Trustee undertakes to perform only those duties specifically set forth in the Master Indenture. In case an Event of Default has occurred, the Master Trustee shall exercise the rights and powers vested in it by the Master Indenture, and use the same degree of care and skill as a prudent man under the circumstances in the conduct of its own affairs.

No provision of the Master Indenture shall be construed to relieve the Master Trustee from liability for its own grossly negligent action, its own grossly negligent failure to act, or its own willful misconduct; provided, however, that:

(a) the Master Trustee shall not be liable for any error of judgment made in good faith by a responsible officer or officers of the Master Trustee, unless it is provided that the Master Trustee was grossly negligent in ascertaining the pertinent facts; and

(b) the Master Trustee shall not be liable with respect to any action taken or admitted to be taken by it in good faith in accordance with the direction of the Holders of the majority in aggregate principal amount of Obligations then outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee, under the Master Indenture.

Except as otherwise provided in the immediately preceding paragraph:

(a) The Master Trustee may rely and shall be protected in acting or refraining from acting upon various papers or documents believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) An Officer's Certificate (unless otherwise specifically prescribed) shall be sufficient evidence of any request, direction, order or demand of any Obligated Issuer mentioned under the Master Indenture. Any resolution of the Governing Body of an Obligated Issuer may be evidenced to the Master Trustee by copy thereof, certified by the Secretary or an Assistant Secretary of such Obligated Issuer.

(c) The Master Trustee may consult with Counsel, and the advice of such counsel shall be full and complete authorization and protection. The Master Trustee shall be relieved of liability to the Holders of the Obligations and to the Obligated Issuers in respect of any action taken, suffered or omitted by it under the Master Indenture in good faith and in accordance with Counsel's advice.

(d) Prior to the occurrence of an Event of Default under the Master Indenture and after the curing of all Events of Default, the Master Trustee is not bound to make any investigation into facts or matters stated in various papers or documents, unless requested in writing to do so by the Holders of a majority in aggregate principal amount of Obligations then outstanding. As a condition to proceeding with the requested investigation, the Master Trustee, in accordance with the terms of the Master Indenture, may require indemnity against various costs, expenses or liabilities.

(e) The Master Trustee may execute any of the trusts or powers under the Master Indenture or perform any duties under the Master Indenture either directly or by or through agents or attorneys.

(f) The Master Trustee shall be under no responsibility for the approval by it in good faith by an expert or other skilled person for any of the purposes expressed in the Master Indenture.

The recitals contained in the Master Indenture and in the Obligations (other than the Certificate of Authentication on such Obligations) shall be taken as the statements of the Obligated Issuer, and the Master Trustee assumes no responsibility for the correctness thereof. Further, the Master Trustee makes no representations as to the validity or sufficiency of the Master Indenture or the liens and security created thereunder or of the Obligations. The Master Trustee shall not be accountable for the use or application of: any of the Notes or the proceeds of such Obligations, any moneys paid over by the Master Trustee, or any moneys received by any paying agent other than the Master Trustee.

The Master Trustee, in its individual or any other capacity, may become the owner or pledgee of Obligations with the same rights it would have if it were not the Master Trustee under the Master Indenture. Further, the Master Indenture shall not prohibit the Master Trustee from serving as Trustee under any Related Financing Documents or for maintaining a banking relationship with any Obligated Issuer; provided that if the

Master Trustee determines that there is a conflict with its duties under the Master Indenture, it shall eliminate the conflict or resign as Master Trustee.

Each Obligated Issuer shall pay, and shall be jointly and severally liable to pay, to the Master Trustee reasonable compensation, reimbursement for all reasonable expenses, disbursement and advances. Each Obligated Issuer shall indemnify, defend and shall be jointly and severally liable to indemnify, the Master Trustee and its officers, directors, employees and agents for, and to hold them harmless against, any loss, liability or expense incurred without gross negligence or willful misconduct on the part of the Master Trustee and arising out of or in connection with the acceptance or administration of such trusts, including the costs and expenses of defending itself against any claim of liability in the premises. The Obligated Issuers' joint and several obligations described in this paragraph shall survive the satisfaction and discharge of the Master Indenture and the resignation, removal and succession of the Master Trustee. Subject only to the rights of any Holder, the Master Trustee shall have an express first and prior lien on any moneys or Investment Securities on the deposit in any funds as security for the payment of all such obligations.

Subject to the first paragraph under this section entitled "Concerning the Master Trustee," any matter may be conclusively proved and established by an Officer's Certificate delivered to the Master Trustee. In the absence of bad faith on the part of the Master Trustee, any such Officer's Certificate shall be full ratification of any action taken, suffered or omitted by the Master Trustee under the provisions of the Master Indenture upon the faith thereof, and the Master Trustee shall not be obligated to make any investigation into the facts stated therein.

The Master Trustee may resign at any time without cause by giving notice as required under the Master Indenture. Further, the Master Trustee may be removed (a) with cause at the direction of the Holders of not less than 66-2/3% in aggregate principal amount of Obligations then outstanding, delivered to the Obligated Group and the Master Trustee, or (b) for any reason at the direction of the Obligation Group Agent if no Event of Default then exists under the Master Indenture. The Master Trustee shall promptly give notice of any removal pursuant to the previous sentence in writing to each Holder of an Obligation then outstanding. In the case of the resignation and removal of the Master Trustee, a successor Master Trustee may be appointed by the Obligated Group unless an Event of Default exists under the Master Indenture. If an Event of Default exists under the Master Indenture, or if the Obligated Group otherwise fails to appoint a successor in accordance with the terms of the Master Indenture, a successor may be appointed at the direction of the Holders of not less than 66-2/3% in aggregate principal amount of Obligations then outstanding.

Any successor Master Trustee, however appointed, in accordance with the terms of the Master Indenture, shall accept such appointment, and, without further act, shall become vested with all the estates, properties, rights, powers and duties of its predecessor under the Master Indenture as if originally named the Master Trustee. The successor Master Trustee may, however, request that its predecessor execute and deliver an instrument transferring the above and assigning, transferring, delivering and paying over to such successor Master Trustee all moneys or other property then held by the predecessor under the Master Indenture.

Any successor Master Trustee, however appointed, shall be a bank or trust company having together with its Affiliates a combined capital and surplus on a consolidated basis of at least $50,000,000.

Any corporation into which the Master Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Master Trustee shall be a party, or any corporation to which substantially all the business of the Master Trustee may be transferred, shall, subject to the immediately preceding paragraph, be the Master Trustee under the Master Indenture without further act.

Subject to the terms and conditions as set forth in the Master Indenture, the Master Trustee shall have the power to appoint one or more Persons not unsatisfactory to the Obligated Group Agent to act as Co-Master Trustee.

Modifications and Amendments

Each Obligated Issuer, when authorized by a resolution of its Governing Body, and the Master Trustee may, without the consent of the holders of the Obligations then outstanding, enter into a Supplemental Indenture to the Master Indenture to (a) provide for the issuance of any Obligations under the Master Indenture, (b) evidence the addition of an Obligated Issuer or the succession of another corporation to any Obligated Issuer, (c) add additional covenants for the protection of the holders of Obligations, (d) cure any ambiguity or defective provision of the Master Indenture or any Supplemental Indenture in such manner as is not inconsistent with and does not impair the security of the Master Indenture or adversely affect the holders of Obligations of any series of Obligations issued under the Master Indenture, (e) qualify the Master Indenture under the Trust Indenture Act of 1939 or under any similar federal statute hereafter enacted, (f) provide for the establishment of additional funds and accounts, (g) permit the issuance of additional forms of Obligations provided such Obligations are equally and ratably secured with all other Obligations issued under the Master Indenture (except as provided herein), and (h) reflect a change in applicable law.

With the consent of the Holders of not less than a majority[*] in aggregate principal amount of Obligations then outstanding, each Obligated Issuer, when authorized by its Governing Body, and the Master Trustee, may from time to time and at any time enter into a Supplemental Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Master Indenture or of any Supplemental Indenture or of modifying in any manner the rights of the Holders of Obligations; provided, however, that (i) without the consent of the Holders of all Obligations whose Obligations are proposed to be modified, no such supplemental indenture shall effect a change in the times, amounts or currency of payment of the principal of, premium, if any, or interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon or permit the preference or priority of any Obligation over any other Obligation; (ii) without the consent of the Holders of all Obligations then outstanding, no such supplemental indenture shall reduce the aforesaid percentage or affected class of Obligations, the Holders of which are required to consent to any such Supplemental Indenture; (iii) without the consent of the Holders of all Obligations then outstanding, no such supplemental indenture shall effect a change in the conditions for withdrawal as a Member of the Obligated Group; (iv) without the consent of the Holders of all Obligations then outstanding, no such supplemental indenture shall effect a change in the provisions permitting the Holders of 25% in aggregate principal amount of all outstanding Obligations to direct acceleration upon the occurrence of an Event of Default; and (v) without the consent of the Holders of all Obligations then outstanding, any provision of the Master Indenture which specifies a percentage of Holders required to take any action hereunder.

Effect of Supplemental Indenture

Upon the execution of any Supplemental Indenture, the Master Indenture shall be modified and amended in accordance therewith, and the respective rights, limitation of rights, obligations, duties, and immunities under the Master Indenture of the Master Trustee, each Obligated Issuer and the Holders of Obligations issued under the Master Indenture shall thereafter be determined, exercised and enforced under the Master Indenture subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Master Indenture.

Satisfaction and Discharge of Indenture

If the Master Trustee receives: (a) an amount which is (i) in the form of (A) cash, or (B) Government Obligations, and (ii) in a principal amount sufficient, together with the interest thereon and any funds on deposit under the Master Indenture and available for such purpose, to provide for the payment of the principal of and

[*] By purchasing the Bonds, the initial holders thereof, as well as the holders of certain Obligations previously issued under the Master Indenture, have consented to an amendment providing for majority approval. However, with respect to the change to the definition of "Debt Service Requirement" (see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Amendment of the Master Indenture" in the front part of this Official Statement) and any future amendments to the Master Indenture requiring consent under this paragraph, the consent of the holders of 75% in the aggregate principal amount of Obligations outstanding will be required until receipt of the consent of the percentage of bondholders and credit enhancers required under the terms of the Master Indenture.

premium, if any, and interest on all outstanding Obligations to and including the maturity date or prior redemption or prepayment date thereof; (b) irrevocable instructions to redeem all Obligations to be redeemed prior to maturity and to notify the Holders of each such redemption; and (c) an amount sufficient to pay or provide for the payment of all other sums payable under the Master Indenture by the Obligated Issuers or any thereof, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Obligated Group Agent, shall execute all such instruments acknowledging satisfaction of and discharging the Master Indenture as requested by the Obligated Group Agent.

Similarly, the Obligated Issuer of any particular Obligation may provide for the payment thereof at or prior to maturity, and the Obligation so provided for shall thereupon cease to be outstanding under the Master Indenture.

In lieu of the foregoing, the Obligated Issuer of any particular Obligation may deliver to the Holder thereof the amount required under the Related Financing Documents to provide for the payment of the principal, premium, if any, and interest due or to become due in respect of such Obligation and such Obligation shall, upon surrender to the Master Trustee for cancellation, no longer be deemed outstanding under the Master Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

Funds; Disposition of Revenues

Revenue Fund. The Issuer shall establish with the Bond Trustee under the Bond Indenture and maintain so long as any of the Bonds are outstanding thereunder a separate account to be known as the "Revenue Fund-- Mountain States Health Alliance" (hereinafter called the "Revenue Fund"). All payments upon the Obligations pledged under such Bond Indenture and all transfers from the Rebate Fund shall, when received by the Bond Trustee, be deposited in the Revenue Fund and shall be held therein until disbursed as provided in the Bond Indenture. Beginning at the times indicated below, the Bond Trustee will make transfers each month from the Revenue Fund to the Interest Fund and then to the Bond Sinking Fund. If any payment is due and payable on a date which is not a business day, such payment shall be due and payable on the first business day immediately following such payment.

Interest Fund. The Issuer shall establish with the Bond Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "Interest Fund-- Mountain States Health Alliance" (hereinafter called the "Interest Fund"). A deposit to the credit of the Interest Fund is to be made in an amount equal to the accrued interest on each series of Bonds from the date of such series to the date of delivery thereof.

On or before the 14th day of each February and August, commencing with February 14, 2013, the Bond Trustee shall deposit in the Interest Fund from moneys in the Revenue Fund an amount which will be not less than the interest to become due on the next succeeding semi-annual interest payment date of the Bonds; provided, however, that such deposit shall be reduced to the extent that there is a sufficient amount already on deposit in the Interest Fund for that purpose. Moneys on deposit in the Interest Fund, other than income thereon which is to be transferred to other funds created under the Bond Indenture, must be used to pay interest on the bonds as it becomes due.

Bond Sinking Fund. The Issuer shall establish with the Bond Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "Bond Sinking Fund-- Mountain States Health Alliance" (hereinafter called the "Bond Sinking Fund"). On or before the 14th day of each August, commencing August 14, 2013, the Bond Trustee shall deposit in the Bond Sinking Fund from the moneys in the Revenue Fund an amount which is not less than the principal of the Bonds next to become due by maturity or mandatory Bond Sinking Fund redemption. No such deposit need be made, however, to the extent that there is a sufficient amount already on deposit and available for such purpose in the Bond Sinking Fund to be applied to such maturity or mandatory Bond Sinking Fund redemption payment.

Moneys on deposit in the Bond Sinking Fund, other than income earned thereon which is to be transferred to other funds created under the Bond Indenture, shall be applied by the Bond Trustee to pay principal on the Bonds as it becomes due and to redeem the Bonds in accordance with the mandatory Bond Sinking Fund redemption schedule provided for in the Bond Indenture. In lieu of such mandatory Bond Sinking Fund redemption, the Bond Trustee may, at the request of the Corporation, purchase for cancellation an equal principal amount of Bonds of the series and maturity to be redeemed in the open market at prices not exceeding the principal amount of such Bonds being purchased plus accrued interest, with the principal portion of such purchase price to be paid from the Bond Sinking Fund and with the interest portion of such purchase price to be paid from the Interest Fund. In addition, the amount of Bonds to be redeemed on any date pursuant to the mandatory Bond Sinking Fund redemption schedules shall be reduced by the principal amount of Bonds of the series and maturity required to be redeemed which are acquired by the Corporation or any other Obligated Issuer and delivered to the Bond Trustee for cancellation.

Optional Redemption Fund. The Issuer shall establish with the Bond Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "Optional Redemption Fund-- Mountain States Health Alliance" (hereinafter called the "Optional Redemption Fund"). In the event of (i) prepayment by or on behalf of the Corporation or any other Obligated Issuer of amounts payable on the Obligations pledged under the Bond Indenture, including prepayment with condemnation or insurance proceeds or proceeds of sale consummated under threat of condemnation, or (ii) deposit with the Bond Trustee by the Corporation or the Issuer of moneys from any other source for redeeming Bonds or purchasing Bonds for cancellation, except as otherwise provided in the Bond Indenture, such moneys shall be deposited in the Optional Redemption Fund. Moneys on deposit in the

Optional Redemption Fund shall be used first to make up any deficiencies existing in the Interest Fund and the Bond Sinking Fund (in the order listed) and second for the redemption of Bonds in accordance with the provisions of the Bond Indenture.

Expense Fund. The Issuer shall establish with the Bond Trustee and separate account to be known as the "Expense Fund-- Mountain States Health Alliance" (hereinafter called the "Expense Fund"). Amounts on deposit in the Expense Fund shall be used for the payment of expenses for recording, trustee's and depository's fees and expenses, accounting and legal fees, financing costs (including costs of acquiring investments for the funds and escrows), and other fees and expenses incurred or to be incurred by or on behalf of the Issuer or the Corporation in connection with or incident to the issuance and sale of the Bonds. At such time as the Bond Trustee is notified that all such fees and expenses have been paid, the Bond Trustee shall transfer any moneys remaining in the Expense Fund as provided in the Bond Indenture.

Project Fund. The Issuer shall establish with the Bond Trustee a separate account to be known as the "Project Fund -- Mountain States Health Alliance" (hereinafter called the "Project Fund"). Any moneys received by the Bond Trustee from any source for the Project shall be deposited into the Project Fund unless otherwise specifically excepted under the Bond Indenture. Except to the extent required to be transferred to the Rebate Fund in accordance with the Tax Agreement, moneys in the Project Fund shall be held in trust by the Bond Trustee, and shall be applied from time to time by the Bond Trustee in order to pay (or reimburse the Corporation for) the costs of the Project and other costs related to the Project and permitted under the Act, in each case after receipt by the Bond Trustee of a written request of the Corporation as specified in the Bond Indenture.

If, after receipt by the Bond Trustee of a completion certificate with respect to the Project required pursuant to the Bond Indenture, there shall remain any moneys in the Project Fund, the Corporation may (i) elect to retain all or a portion of such money in the Project Fund until approximately three years from the issue date of the Bonds as set forth in the Bond Indenture, or withdraw such moneys for payment of the cost of one or more "projects" (as such term is defined in the Act) but only if the Corporation complies with the requirements of the Tax Agreement relating to changes in or amendments to the Project, or (ii) deposit such moneys in the Revenue Fund to the extent necessary to make the transfers therefrom within one year from the date of deposit to the Interest Fund and the Bond Sinking Fund and then to the Optional Redemption Fund.

Investment of Funds

(a) Upon a Written Request of the Corporation filed with the Bond Trustee, moneys in the Revenue Fund, Project Fund, Interest Fund, Bond Sinking Fund, Expense Fund and Optional Redemption Fund shall be invested only in Permitted Investments. Such investments shall be made so as to mature on or prior to the date or dates that moneys therefrom are anticipated to be required. The Bond Trustee, when authorized by the Corporation, may trade with itself in the purchase and sale of securities for such investment; provided, however, that in no case shall any investment be otherwise than in accordance with the investment limitations contained in the Bond Indenture and in the Tax Agreement. The Bond Trustee shall not be liable or responsible for any loss resulting from any such investments.

(b) Until completion of the Project, if the Corporation so elects prior to the receipt of such investment income, investment income from the fund specified in subsection (a) above in excess of the requirements of such funds, shall be deposited into the Project Fund.

(c) Except as provided in subsection (b) above, all income in excess of the requirement of the Funds specified in subsection (a) derived from the investment of moneys on deposit in any such Fund will be deposited in the following Funds, in the order listed:

(i) The Interest Fund and Bond Sinking Fund (in that order) to the extent of the amounts required to be deposited in each on the next required payment date for the Bonds; and

(ii) The balance, if any, in the Optional Redemption Fund.

The Bond Trustee is permitted to transfer moneys in any of the trust funds established under the Bond Indenture to the Rebate Fund in order to comply with the provisions of the Tax Agreement.

Additional Bonds

In addition to providing for the issuance of the Bonds initially being issued thereunder, the Bond Indenture provides for the issuance by the Issuer of Additional Bonds for any one or more of the following purposes:

(1) to refund any series of outstanding Bonds or portion thereof;

(2) to advance refund any series of outstanding Bonds or portion thereof by depositing with the Bond Trustee, in trust for the sole benefit of such series of Bonds or portion thereof, cash or Defeasance Investments in a principal amount which, alone or, in the case of Defeasance Investments, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, will be, in the opinion of a certified public accountant acceptable to the Bond Trustee and the Issuer, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Bonds of such series or portion thereof to be refunded at or before their respective maturity dates;

(3) to obtain funds to loan to the Corporation in order to complete any "project" (as defined in the Act) financed or refinanced, in whole or in part, with the proceeds of any Bonds issued under the Bond Indenture; and

(4) to obtain funds for any other purpose permitted under the Act.

The principal amount of such Additional Bonds may include an amount sufficient to pay the costs and expenses of issuance as well as such capitalized amounts as are permitted by Act. Such Additional Bonds shall be issued on a parity with the thereunder (except that any series of Bonds or portion thereof may be advance refunded through the deposit in escrow for the benefit of such Bonds of cash or Defeasance Investments) notwithstanding the fact that no additional security (except for the required pledge of an Additional Obligation issued pursuant to the Master Indenture) is made subject to the lien of the Bond Indenture; provided, however, that the Bond Trustee and the Bond are authorized to accept additional security upon the issuance of any Additional Bonds.

Prior to the delivery of any Additional Bonds, there shall be filed with the Bond Trustee, among other things, all of the following:

(a) A written statement by the Corporation approving (i) the issuance and delivery of such Additional Bonds and the issuance of Additional Obligations to the Issuer (which Additional Obligations shall be pledged under the Bond Indenture) in a principal amount equal to such Additional Bonds and with payments of principal and interest thereon sufficient to cover payments of principal and interest to be made on such Additional Bonds to the same extent as if such Additional Bonds were included in the issuance of the existing Bonds, and (ii) any other matters to be approved by the Corporation pursuant to the Loan Agreement, the Master Indenture and the Bond Indenture.

(b) A copy of the Issuer resolution theretofore adopted and approved authorized the execution and delivery of such supplements to the Bond Indenture and to the Loan Agreement as may be necessary and authorizing the issuance of such Additional Bonds.

(c) A copy of the Corporation resolutions theretofore adopted and approved authorizing the execution and delivery of the additional Obligations and a supplement to the Loan Agreement and the Master Indenture and further approving such supplemental bond indenture and the issuance and sale of such Additional Bonds.

(d) The original executed additional Obligations referred to in paragraph (a) above made payable to the Issuer and duly issued pursuant to the Master Indenture and original executed counterparts of the supplements to the Bond Indenture, the Loan Agreement and the Master Indenture.

(e) A request and authorization to the Bond Trustee on behalf of the Issuer to authenticate and deliver such Additional Bonds (specifically stating the principal amount to be issued and delivered to the purchasers therein identified) upon payment to the Bond Trustee, but for the account of the Issuer, of a sum specified in such request and authorization plus accrued interest, if any, thereon to the date of delivery. The Bond Trustee shall out of such proceeds deposit to the Interest Fund under the Bond Indenture the amounts, if any, set forth in the supplemental indenture with respect to such Additional Bonds, and deposit to the credit of an expense fund the amount set forth in said supplemental indenture. If the proceeds received by the Bond Trustee are from the issuance of Additional Bonds for the purpose of acquiring or constructing additional health facilities, then the supplemental indenture shall provide that, after making the deposits set forth above, the balance of such proceeds shall be deposited in an acquisition or construction fund maintained under the Bond Indenture having such terms and provisions as are acceptable to the Issuer and shall be paid out against such showings as are acceptable to the Issuer.

(f) Copies of the materials required to be delivered to the Master Trustee in connection with the issuance of the Additional Obligations referred to in paragraph (a) above.

(g) Appropriate supplements to the Bond Indenture and the Loan Agreement providing, among other things, for the pledge of the Additional Obligations referred to in paragraph (a) above under the Bond Indenture.

(h) Such other closing documents and opinions of counsel as the Issuer and the Bond Trustee may reasonably specify.

Arbitrage

The Issuer and the Bond Trustee, to the extent of its discretion described under "Investment of Funds," covenant and agree that they will not take any action or fail to take any action with respect to the investment of the proceeds of the Bonds or any Additional Bonds issued under the Bond Indenture or with respect to the payments derived from the Obligations pledged under such Bond Indenture or from the Loan Agreement or any other moneys regardless of source or where held which may, notwithstanding compliance with the other provisions of the Bond Indenture, Loan Agreement, and Tax Agreement, cause the Bonds to constitute "arbitrage bonds" within the meaning of such term as used in Section 148 of the Code. The Issuer further covenants and agrees that it will comply with and take all actions required by the Tax Agreement.

Supplemental Bond Indentures

Subject to the limitations set forth in the next paragraph, the Issuer and the Bond Trustee may, without the consent of, or notice to, any of the bondholders, enter into an indenture or indentures supplemental to the Bond Indenture to (a) cure any ambiguity or formal defect or omission in the Bond Indenture; (b) grant to or confer upon the bond Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders and the Bond Trustee, or either of them; (c) assign and pledge under the Bond Indenture additional revenues, properties or collateral; (d) evidence the appointment of a separate trustee or the succession of a new trustee under the Bond Indenture; (e) permit the qualification of the Bond Indenture under the Trust Indenture Act of 1939, as then amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States; (f) permit the issuance of coupon Bonds of any series under the Master Indenture and permit the exchange of bonds from registered form to coupon form and vice versa; (g) provide for the refunding or advance refunding of any Bonds; (h) permit the issuance of any series of Additional Bonds; (i) permit continued compliance with the Tax Agreement or any similar agreement entered into in connection with the issuance of any series of Additional Bonds; and (j) to make any other change that, in the judgment of the Bond Trustee, does not materially adversely affect the rights of any Bondholders. The Issuer and the Bond Trustee may not enter into a bond indenture or indentures supplemental to the Bond Indenture pursuant to (f) above unless they shall have received an opinion of nationally recognized municipal bond counsel to the effect that the issuance of coupon Bonds will not adversely affect the validity of such Bonds or any exclusion from federal income taxation of interest paid on any Bonds to which such Bond would otherwise be entitled.

In addition to supplemental indentures for the purposes set forth in the previous paragraph, and subject to the terms and provisions described in this paragraph, and not otherwise, the holders of not less than a majority in the aggregate principal amount of the Bond which are outstanding under the Bond Indenture at the time of the execution of such supplemental indenture or, in the case less than all of the several series of Bonds outstanding are affected thereby, the holders of not less than a majority in aggregate principal amount of all Bonds of each series so affected which are outstanding at the time of such execution shall have the right, from time to time, anything contained in the Bond Indenture to the contrary notwithstanding, to consent to and approve the execution by indenture as shall be deemed necessary and desirable by the board for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Indenture or in any supplemental indenture; except that no such supplemental indenture shall permit: (a) an extension of the stated maturity or reduction in the principal amount of, or reduction in the rate or extension of the time of paying interest on, or reduction of any premium payable on the redemption of any Bonds without the consent of the holders of such Bonds; (b) a reduction in the amount or extension of the time of any payment required to be made to or from the Interest Fund or the Bond Sinking Fund or any interest or sinking fund applicable to any Additional Bonds; (c) the creation of any lien prior to or on a parity with the lien of the Bond Indenture without the consent of the holders of all the Bonds at the time outstanding; (d) a reduction in the aforesaid aggregate principal amount of Bonds the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of all the Bonds at the time outstanding which would be affected by the action to be taken; or (e) a modification of the rights, duties or immunities of the Bond Trustee, without the written consent of the Bond Trustee.

So long as the Obligated Issuers are not in default under the Master Indenture or the Corporation is not in default under the Loan Agreement, any supplemental indenture which adversely affect the rights of any member under the Master Indenture or the Corporation under the Loan Agreement shall not become effective unless and until the Corporation shall have consented in writing to the execution and delivery of such supplemental indenture.

Defeasance

The Issuer may pay or provide for the payment of the entire indebtedness on all Bonds outstanding (including, for these purposes, Bonds held by any Member of the Obligated Group) in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all Bonds outstanding, as and when the same become due and payable;

(b) by depositing with the Bond Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Bonds outstanding (including the payment of premium, if any, and interest payable on such Bonds to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested in Defeasance Investments increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Bonds outstanding at or before their respective maturity dates, it being understood that the investment income on such Defeasance Investments may be used for any other purpose under the Act;

(c) by delivering to the Bond Trustee, for cancellation, all Bonds outstanding; or

(d) by depositing with the Bond Trustee, in trust, Defeasance Investments in such amounts as the Bond Trustee shall determine will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all bonds at or before their respective maturity dates.

Upon the deposit with the Bond Trustee, in trust, of money or Defeasance Investments in the necessary amount to pay or redeem all outstanding Bonds and compliance with the other payment provisions of the Bond Indenture, including delivery to the Bond Trustee of a certificate of an independent certified public accounting firm satisfactory to the Bond Trustee that the cash or Defeasance Investments held by the bond Trustee pursuant to the provisions described above are sufficient for the purposes set forth above, the Bond Indenture may be discharged in accordance with the provisions thereof but the liability of the Issuer upon the Bonds shall continue provided that the holders thereof shall thereafter be entitled to payment only out of the moneys or the Defeasance Investments deposited with the Bond Trustee as indicated above.

If the Issuer shall pay or provide for the payment of the entire indebtedness on all Bonds of a particular series, or any portion of a particular series, in any one or more of the ways described in the first paragraph of this section, such Bonds shall cease to be entitled to any lien, benefit or security under the Bond Indenture. The liability of the Issuer in respect of such Bonds, if any, shall continue but the holders thereof shall thereafter be entitled to payment (to the exclusion of all other Bondholders) only out of the moneys or Defeasance Investments deposited with the Bond Trustee.

The foregoing notwithstanding, none of the Bonds may be so refunded nor may the Bond Indenture be discharged thereby if under any circumstances interest on such refunded Bonds is thereby made subject to federal income taxation to which such interest would not otherwise be subject. As a condition precedent to the advance refunding of any Bonds, the Bond Indenture requires the Bond Trustee to receive an opinion of Bond Counsel, which opinion may be based upon a ruling or rulings of the Internal Revenue Service, to the effect that interest on the Bonds being refunded will not, by reason of such refunding, be subject to federal income taxation to which such interest would not otherwise be subject.

Defaults and Remedies

Events of default are set forth in the Bond Indenture. Such events of default include, among other things: (i) failure to pay interest on any of the Bonds when the same shall become due and payable; (ii) failure to pay the principal of or the premium, if any, payable on any of the bonds when the same shall become due and payable, either at maturity, by proceedings for redemption, upon acceleration, through failure to make any payment to any Fund under the Bond Indenture or otherwise; (iii) certain events of bankruptcy, insolvency and the like relating to the Issuer; (iv) the Issuer shall for any reason be rendered incapable of fulfilling its obligations under the Bond Indenture; (v) any event of default as defined in the Loan Agreement or in the Master Indenture shall occur and be continuing from and after the date the Issuer is entitled under the Loan Agreement to request that the Master Trustee declare the Obligations pledged under the Bond Indenture immediately due and payable or the date on which the Master Trustee is entitled under the Master Indenture to declare any Obligation immediately due and payable; (vi) default by the Issuer in the due and punctual performance of any of the other covenants conditions, agreements and provisions be performed on the part of the Issuer and continuance of such default for the period of 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Issuer, the Obligated Group Agent and the Corporation by the Bond Trustee (which notice may be given by the Bond Trustee in its discretion and shall be given by the Bond Trustee at the request of the owners of Bonds whose Bond Obligation is not less than 10% in aggregate principal amount of Bonds then outstanding); (vii) the Issuer, the Corporation or the Bond Trustee shall default in the performance of any covenant, condition, agreement or provision of the Tax Agreement, and such default shall continue for the period of 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the party in default, the Corporation and the Obligated Group Agent by the other party; and (viii) certain other events listed in the Bond Indenture.

Upon the happening of any event of default (other than the events of default described in (i) and (ii) above) and the continuance of the same for the period, if any, specified under the Bond Indenture, the Bond Trustee may, without any action on the part of the Bondholders, and upon the happening and continuance of any event of default described in (i) and (ii) or upon the happening and continuance of any other event of default and the written request of the owners of Bonds of not less than twenty-five percent (25%) in aggregate principal amount of all Bonds then outstanding under the Bond Indenture (exclusive of Bonds then owed by the Issuer of any Member), and upon being indemnified to its satisfaction, the Bond Trustee shall, by notice in writing delivered to the Issuer, declare the entire principal amount of the Bonds then outstanding and the interest accrued thereon, immediately due and payable, and such entire principal and interest shall thereupon become and be immediately due and payable, subject, however, to the provisions of the Bond Indenture with respect to waivers of events of default.

Direction of Proceedings

The owners of a majority in aggregate principal amount of all Bonds then outstanding shall have the right at any time, by an instrument or instruments in writing executed and delivered to the Bond Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Bond Indenture, including the enforcement of the rights of the Issuer under the Loan Agreement or the appointment of a receiver or any other proceedings under the Bond Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Bond Indenture.

Waivers of Events and Default

The Bond Trustee may in its discretion waive any event of default under the Bond Indenture and its consequences and rescind any declaration of maturity of principal, and shall do so upon written request of the owners of (1) at least a majority in aggregate principal amount of the Bonds outstanding in respect of which default in the payment of principal and/or interest exists, or (2) at least a majority in aggregate principal amount of all the Bonds outstanding in the case of any other event of default. The foregoing notwithstanding, in no event shall there be waived (a) any event of default in the payment of the principal of any outstanding Bond when due whether by mandatory redemption through the Bond Sinking Fund or at the dates of maturity specified therein, or (b) any default in the payment, other than an acceleration of the Bonds, when due of the interest on any such Bonds, unless prior to such waiver or rescission all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds in respect of which such default shall have occurred on overdue installments of interest or all arrears of payments of principal when due, as they case may be, and all expenses of the Bond Trustee and any Paying Agent in connection with such default shall have been paid or provided for. In case of any such waiver or rescission or in case any proceeding taken by the Bond Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Issuer, by the Bond Trustee and the Bondholders shall, subject to any determination in such proceedings, be restored to their former positions and rights under the Bond Indenture respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement between the Corporation and the Issuer, to which reference is made for a full and complete statement of its provisions.

Loan of Bond Proceeds

The Issuer will lend the proceeds from the sale of the Bonds to the Corporation. The Obligations will be delivered to the Issuer to evidence such Joan and the obligation of the Corporation to repay the same. Each Obligation will be issued in a principal amount equal to the aggregate principal amount of the corresponding series of Bonds, and will provide for payment of principal, premium, if any, and interest thereon, sufficient to permit the Issuer to make payments of principal, premium, if any, and interest on the corresponding series of Bonds.

Representations

The Corporation represents that it is a not for profit corporation duly incorporated under the laws of the State of Tennessee, is in good standing and duly authorized to conduct its business in the State, has full power to execute and deliver the Loan Agreement, the Master Indenture, the Tax Agreement and each Obligation. The Corporation also warrants that each Obligation is in the hands of the holder thereof will be the legal and valid joint and several obligation of the Corporation and each other Obligated Issuer. In addition, the Corporation will represent that no litigation, proceedings or investigation are pending or, to the knowledge of the Corporation, threatened against the Corporation except (i) litigation, proceedings or investigations involving claims for hospital professional or general patient liability for which the probably ultimate recovers and the estimated costs and expenses of defense, in the opinion of Independent Counsel, will be entirely within applicable insurance policy limits (subject to applicable deductibles) or are not in excess of the total available assets held under applicable self-insurance programs of (ii) litigation, proceedings or investigations involving other types of claims which if adversely determined will not, in the opinion of Independent Counsel, have a material adverse effect on the operations or condition, financial or otherwise, of the Corporation.

Assignment of Rights under the Loan Agreement and the Obligations

The Corporation agrees that the Loan Agreement, the Obligation and any Additional Obligations delivered to the Issuer to evidence loans made by the Issuer pursuant to the Loan Agreement from the proceeds of Additional Bonds and payments to be made thereunder and thereon (excluding fees and expenses payable to the Issuer and the Issuer's right of indemnification in certain circumstances) shall be assigned and pledge to secure payment of the Bonds, and all of the rights, interest, powers, privileges and benefits accruing to or vested in the Issuer thereunder may be protected and enforced in conformity with the Bond Indenture and may be assigned by the Issuer to the Bond Trustee as additional security for the Bonds, other than the right of the Issuer to receive payment of its fees and expenses, its right to indemnification and its right to execute and deliver supplements and amendments to the Loan Agreement.

Payments in Respect of Obligation and Under the Loan Agreement

Under the terms of the Loan Agreement, the Corporation covenants and agrees to pay the Bond Trustee such amounts at such times as shall provide for payment of interest, premium, if any, and principal, whether upon a regularly schedule interest payment date, maturity, mandatory redemption or acceleration, on each series of Bonds outstanding under the Bond Indenture. The Loan Agreement also requires that the Corporation pay certain other charges which may be incurred for such items as the Bond Trustee's fees, the Issuer's fees and expenses, taxes and assessments, if any, and costs incurred in connection with or incident to the issuance and sale of the Bonds which exceed the amount on deposit in the Expense Fund. All payments due on each Obligation, on any Additional Obligations issued in connection with the issuance of Additional Bonds and under the Loan Agreement, shall be paid directly to the Bond Trustee's and applied in the manner provided in the Bond Indenture.

Corporation's Obligations are Unconditional

The obligations of the Corporation to pay the principal, premium, if any, and interest on the Obligations pledged under the Bond Indenture, to pay the other sums provided for in the Loan Agreement and to perform and observe its other agreements under the Loan Agreement shall be absolute and unconditional, and the Corporation shall not be entitled to any abatement or diminution thereof nor to any termination of the Loan Agreement for any reason whatsoever.

Completion of the Project; Completion Certificate. The Corporation agrees to cause the Project to be completed in accordance with the Loan Agreement and the Tax Agreement with reasonable dispatch. The Corporation shall provide (from its own funds if required) all moneys necessary to complete the Project.

The Corporation will deliver to the Bond Trustee, within 90 days after completion of the Project, the Completion Certificate in the form provided in the Bond Indenture and the Loan Agreement.

Changes in or Amendments to the Project. The Corporation may make, authorize or permit such changes in or amendments to the Project as it reasonably determines to be necessary or advisable. However, no such change shall be made to the Project if it would (i) cause the average maturity of the applicable series of Bonds to be more than 120% of the average reasonably expected economic life of the Project, (ii) result in the Facilities being used for any purpose prohibited by the Loan Agreement, (iii) violate or conflict with the terms of the approvals or findings of non-reviewability concerning the Project by the Tennessee Health Facilities Commission, or (iv) add material construction projects which were part of the Project contemplated in the Tax Agreement.

Certain Covenants of the Corporation Relating to the Use and Operation of Certain of its Property

The Corporation agrees that it will use its health care Facilities primarily as and for hospitals and related activities and only in the furtherance of the lawful corporate purposes of the Corporation.

The Corporation agrees that it will not permit any of the Property for which the Corporation or the Issuer is or has been reimbursed, in whole or in part, whether directly or indirectly, from the proceeds of the Bonds, to be used (i) by any Person in an Unrelated Trade of Business of the Corporation or by any person who is not a Tax-Exempt Organization, in either case in such manner or to such extent as would result in the loss of tax exemption of interest on the Bonds or any other such tax-exempt Additional Bonds otherwise afforded under Section 103(a) of the Code, (ii) primarily for sectarian instruction or study or as a place of devotional activities or religious worship or as a facility used primarily in connection with any part of the program of a school or department of divinity for any religious denomination or the training of ministers, priests, rabbis or other similar person in the field of religion, or (iii) in a manner which is prohibited by the Establishment of Religion Clause of the First Amendment to the Constitution of the United States of America and the decision of the United States Supreme Court interpreting the same or by any comparable provisions of the Constitution of the State and the decisions of the Supreme Court of the State interpreting the same.

Transfer of Assets by Corporation

The Corporation covenants and agrees that it will not sell, lease or otherwise dispose of any of its Property except as provided by the provision of the Master Indenture summarized under "Summary of Certain Provisions of the Master Indenture--Sale, Lease, or Other Disposition of Property" above. The provisions of the Master Indenture notwithstanding, the Corporation agrees that it will not sell, lease or otherwise dispose (including without limitation any involuntary disposition) of in excess of 2%, in the aggregate of the Property financed or refinanced with the proceeds of the Bonds (which percentage shall be reduced to the extent Property financed or refinanced with the proceeds of the Bonds is used in an Unrelated Trade of Business of the Corporation) unless: (a) prior to such sale, lease or other disposition there is delivered to the Bond Trustee and the Issuer an Officer's Certificate of the Corporation stating that, in the judgment of such officer, such Property has become inadequate, obsolete or worn out and that Any amounts received by the Corporation upon such disposition shall be applied by the Corporation to acquire additional property constituting a "project" under the Act; or (b) prior to such sale, lease or other disposition the Corporation delivers to the Bond Trustee and the Issuer a written Opinion of Bond Counsel (which counsel and opinion is acceptable to the Bond Trustee and the Issuer) to the effect that any such disposition will not adversely affect the validity of the Bonds or the exclusion from federal income taxation of the interest paid on the Bonds or any other such tax-exempt Bonds under Section 103(a) of the Code. The Corporation agrees to apply the proceeds of any disposition described in (a) above as provided in such clause and agrees that any Property acquired with such proceeds shall be deemed to be Property financed with the proceeds of the Bonds for purpose of applying the provisions of the Loan Agreement. The amount of Property disposed of will be calculated in accordance with the provisions of the Master Indenture.

Indemnification of the Issuer

The Corporation agrees to pay, protect, indemnify and save the Issuer and the Bond Trustee harmless from and against any and all liability, losses, damages, costs and expenses (including those arising or resulting from any injury to or death of any person or damage to property) arising from or in any manner directly or indirectly growing out of or connected with, among other things, the use and occupancy of any of the Corporation's Property, any repairs, construction, alterations, renovation, relocation, remodeling and equipping thereof or thereto or the condition of any of the Corporation's Property including adjoining sidewalks, streets or alleys and any equipment or facilities at any time located on such Property or used in connection therewith, but which are not the result of the negligence of the Issuer or the Bond Trustee.

Maintenance of Corporate Existence; Bonds to Remain Tax-Exempt

The Corporation agrees to at all times maintain its existence as a Tennessee not-for-profit corporation and it will neither take any action nor suffer any action to be taken by others which will alter, change or destroy its status as a nonprofit corporation or its status as a Tax-Exempt Organization except as permitted by the Master Indenture. The Corporation covenants and agrees that, as long as any Bond remain outstanding, it or any successor thereto into which it is merged or consolidated under the terms of the Master Indenture will remain a Member of the Obligated Group. The Corporation further covenants that it will not make any distribution except as authorized by applicable law and as otherwise permitted under the terms of the Loan Agreement. The Corporation further agrees that it will not act or fail to act in any other manner which would adversely affect the tax exemption for federal income tax purpose of the interest earned by the owners of the Bonds or any other such tax-exempt Additional Bonds to which such Bonds would otherwise be entitled.

Accreditation and Licensure

The Corporation warrants that its hospitals are now accredited by the Joint Commission on Accreditation of Healthcare Organization or other applicable accreditation body and that its health care Facilities have all state and local licenses required for the operation thereof. The Corporation agrees to obtain and maintain all such licenses required for its operations and the operation of its health care Facility and to use its best efforts to obtain and maintain such accreditation, so long as it is in the best interests of the Corporation and the Bondholders, as determined by the Corporation.

Government Grants

The Corporation covenants to comply with all of the terms and provisions of any governmental grants it receives, including those made by the State and the federal government and the laws and regulations under which they are made.

Supplements and Amendments to the Loan Agreement

Under the terms of the Bond Indenture, the Issuer, the Corporation and the Bond Trustee may, without the consent of or notice to the holders of the Bonds, consent to any amendment, change or modification of the Loan Agreement as may be required (i) by the provisions of the Loan Agreement or the Bond Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, (iii) in connection with the issuance of Additional Bonds, (iv) in connection with any other change therein which, in the judgment of the Bond Trustee, does not materially adversely affect the rights of the Bond Trustee or the owners of the Bonds, or (v) for the purpose of complying with the provisions of the Tax Agreement. Except for the amendments, changes or modifications referred to in the preceding sentence, neither the Issuer nor the Bond Trustee shall consent to any other amendment, change or modification of the Loan Agreement without the written approval or consent of the owners of not less than a majority in aggregate principal amount of all Bonds at the time outstanding or in case less than all of the several series of Bonds then outstanding are affected thereby, the owners of not less than a majority in aggregate principal amount of all Bonds of each series so affected then outstanding at the time of execution of any such amendment, change or modification; provided that if such amendment, change or modification will, by its terms, not take effect so long as any Bonds of a specified series remain outstanding, the consent of the holders of such Bonds shall not be required.

Defaults and Remedies

Events of default under the Loan Agreement include: (i) failure of the Corporation to make any payment of principal, interest or premium, on any Obligation pledged under the Bond Indenture or any other payment required by the Loan Agreement when due and payable, (ii) payment of principal, interest or premium on any Bond is not made when due and payable, (iii) failure of the Corporation to perform and comply with any of the covenants and conditions under the Loan Agreement or the Tax Agreement and failure to remedy such default within 30 days after notice thereof from the Bond Trustee; provided that, if such default cannot with due diligence and dispatch be wholly cured within 30 days but can be wholly cured, the failure of the Corporation to remedy such default within such 30-day period shall not constitute a default under the Loan Agreement if the Corporation shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch, (iv) any event of default shall occur under the Master Indenture which would permit the acceleration of any Obligation, (v) certain events of bankruptcy, insolvency and the like relating to the Corporation, and (vi) certain other defaults described in the Loan Agreement.

Whenever any event of default shall have occurred and be continuing under the Loan Agreement, the Issuer may (i) request that the Master Trustee declare the unpaid principal balance of the outstanding Obligations (if not then due and payable) immediately due and payable subject to the provisions of the Master Indenture regarding waiver of events of default, and (ii) pursue any available remedy to collect the payments then due and thereafter to become due on the Obligations pledged under the Bond Indenture or to enforce performance and observance of any obligation, agreement or covenant of the Corporation under the Loan Agreement, the Obligations or the Master Indenture.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

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[Form of Opinion of Bond Counsel]
[Subject to Review]

September 18, 2012

The Health and Educational Facilities Board
of the City of Johnson City, Tennessee
Johnson City, Tennessee

The Bank of New York Mellon Trust Company, N.A.,
Bond Trustee and Master Trustee
St. Louis, Missouri

Merrill Lynch, Pierce, Fenner & Smith Incorporated
New York, New York

Re: The Health and Educational Facilities Board of the City of Johnson City, Tennessee $55,000,000 Hospital Revenue Bonds (Mountain States Health Alliance), Series 2012A

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by The Health and Educational Facilities Board of the City of Johnson City, Tennessee (the "Issuer") of its $55,000,000 Hospital Revenue Bonds (Mountain States Health Alliance), Series 2012A (the "Bonds"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion. Reference is made to the forms of the Bonds for additional information concerning their details, payment and redemption provisions and the proceedings pursuant to which they were issued.

The Bonds are issued pursuant to a Bond Trust Indenture dated as of September 1, 2012 (the "Bond Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the "Bond Trustee"). The proceeds from the sale of the Bonds will be loaned by the Issuer to Mountain States Health Alliance, a not-for-profit corporation incorporated under the laws of the State of Tennessee (the "Alliance"), under a Loan Agreement dated as of September 1, 2012 (the "Loan Agreement"), between the Issuer and the Alliance, which loan will be evidenced by the $55,000,000 Mountain States Health Alliance Note, Series 2012A (The Health and Educational Facilities Board of the City of Johnson City, Tennessee) (the "Series 2012A Obligation") issued pursuant to an Amended and Restated Master Trust Indenture dated as of February 1, 2000, as heretofore amended and as amended by a Thirty-Fourth Supplemental Master Trust Indenture dated as of September 1, 2012 (collectively, the "Master Indenture"), between the Alliance and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee"). Under the Loan Agreement and the Series 2012A Obligation, the Alliance has agreed to make payments to be used to pay when due the principal of and premium, if any, and interest on the Bonds, and such payments and other revenues under the Loan Agreement and the Series 2012A Obligation (collectively, the "Revenues") and the rights of the Issuer under the Loan Agreement (except certain rights to indemnification, reimbursement and administrative fees) are pledged and assigned by the Issuer as security for the Bonds. The Bonds are payable solely from the Revenues.

Reference is made to an opinion of even date of Anderson & Fugate, counsel to the Alliance, with respect, among other matters, to the corporate status, good standing and qualification to do business of the Alliance, the corporate power of the Alliance to enter into and perform the Loan Agreement, the Series 2012A Obligation and the Master Indenture and the authorization, execution and delivery of the Loan Agreement, the Series 2012A Obligation and the Master Indenture by the Alliance and with respect to the Loan Agreement, the Series 2012A Obligation and the Master Indenture being binding and enforceable upon the Alliance.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer and the Alliance contained in the Bond Indenture and the Loan Agreement, the certified proceedings and other certifications of public officials furnished to us, and certifications furnished to us by or on behalf of the Alliance (including certifications as to the use of bond proceeds and other bond issues which are material to paragraph 4 below), without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is duly created and validly existing as a public, nonprofit corporation, organized and existing under the laws of the State of Tennessee with the corporate power to enter into and perform the Bond Indenture and issue the Bonds.

2. The Bond Indenture has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer enforceable against the Issuer. The Bond Indenture creates a valid lien on the Revenues and on the rights of the Issuer under the Loan Agreement (except certain rights to indemnification, reimbursement and administrative fees) for the benefit of the Bonds.

3. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding special obligations of the Issuer, payable solely from the Revenues.

4. Interest on the Bonds (a) will not be included in gross income for federal income tax purposes, and (b) will not be an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations; such interest, however, is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax on corporations (as defined for federal income tax purposes). The foregoing opinion is given in reliance upon certifications by representatives of the Issuer and the Alliance as to certain facts relevant to both the opinion and the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Issuer and/or the Alliance have covenanted to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment of arbitrage profits with respect to the Bonds to the United States. Failure by the Issuer or the Alliance to comply with such covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. The Bonds and the income therefrom shall be exempt from all state, county and municipal taxation in Tennessee except (a) inheritance, gift and estate taxes, (b) excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership.

It is to be understood that the rights of the holders of the Bonds and the enforceability of the Bonds and the Bond Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights heretofore and hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Our services as bond counsel have been limited to rendering the foregoing opinion based on our review of such proceedings and documents as we deem necessary to approve the validity of the Bonds and the excludability of the interest on the Bonds from gross income for federal income tax purposes. We have not made any investigation concerning the financial resources of the Alliance and, therefore, we express no opinion as to the business or financial resources of the Alliance, its ability to provide for the payment of the Bonds or the accuracy or completeness of any information that may have been relied on by anyone in making the decision to purchase the Bonds.

Very truly yours,

APPENDIX E

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Agreement") is executed by the Mountain States Health Alliance, a Tennessee nonprofit corporation (the "Alliance), in connection with (i) the issuance by the Health and Educational Facilities Board of the City of Johnson City, Tennessee of its $55,000,000 Hospital Revenue Bonds (Mountain States Health Alliance) Series 2012A (the "Series 2012A Bonds"), and its $_______ Hospital Revenue Bonds (Mountain States Health Alliance) Series 2012B (the "Series 2012B Bonds"), and (ii) the issuance by the Industrial Development Authority of Wise County of its $_______ Hospital Revenue Bonds (Mountain States Health Alliance), Series 2012C (the "Series 2012C Bonds" and, together with the Series 2012A Bonds and the Series 2012B Bonds, the "Bonds").

1. Purpose of the Agreement

This Agreement is being executed and delivered by the Alliance for the benefit of the Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the Rule (as hereinafter defined).

2. Definitions

Except as otherwise indicated, any capitalized terms used, but not defined herein shall have the meaning assigned to them in the bond indenture pursuant to which the Bonds were issued. The following capitalized terms when used in this Agreement will have the following meanings:

"Annual Disclosure" means the annual financial information, audited financial statements prepared in accordance with generally accepted accounting principles and the operating data, all to be provided by the Alliance with respect to itself and any future Obligated Issuer pursuant to the Rule and this Agreement, as provided in Section 4 hereof.

"Beneficial Owner" means any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Fixed Rate Official Statement" means the Official Statement dated August 24, 2012, pursuant to which the Series 2012A Bonds were sold.

"Listed Events" means any of the events listed below under "Reporting of Significant Events."

"MSRB" means the Municipal Securities Rulemaking Board, or any successor thereto. Currently, the MSRB's address is: MSRB, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314, Attn: Disclosure.

"Official Statements" means the Fixed Rate Official Statement and the Variable Rate Official Statement.

"Quarterly Disclosure" means the provision of the Quarterly Financial Information and any other financial information as provided in Section 5, hereof.

"Quarterly Financial Information" means (i) the Alliance's quarterly financial results in the form of its unaudited quarterly statement of excess of revenue over expenses and its unaudited quarterly balance sheet, each on a consolidated basis for the combined Obligated Group (as defined in the bond documents pursuant to which the Bonds are issued) and (ii) two calculations of the Historical Maximum Annual Debt Service Coverage Ratio (one utilizing a *pro forma* Total Income Available for Debt Service based upon the results of such quarter and the other utilizing Total Income Available for Debt Service over the rolling twelve month period ended with the end of such quarter).

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as previously amended and as the same may be amended from time to time.

"Underwriter" means Merrill Lynch, Pierce, Fenner & Smith Incorporated.

"Variable Rate Official Statement" means the Official Statement dated _____, 2012, pursuant to which the Series 2012B Bonds and the Series 2012C Bonds were sold.

3. Provision of Annual Disclosure and Quarterly Disclosure

Not later than four months after the end of each fiscal year, the Alliance will file its Annual Disclosure with the MSRB. The Annual Disclosure may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided below.

Not later than 45 days after the end of each quarter of the Alliance's fiscal year the Alliance shall file its Quarterly Financial Information with the MSRB.

If the Annual Disclosure is not filed as provided in the preceding paragraph, the Alliance will send a notice to that effect to the MSRB.

4. Content of Annual Disclosure

The Alliance and any future Obligated Issuer shall provide and incorporate the following information in its Annual Disclosure:

(a) The audited financial statements of the Alliance and any future Obligated Issuer whose operations are not reflected in the audited financial statements of the Alliance; and

(b) To the extent not included in the audited financial statements of the Alliance, the Alliance annually will make available the following financial and operating data:

(i) The patient origin analysis from all service areas as a percent of the discharges in Alliance-owned facilities for the prior 12 month period, as set forth under the caption "SERVICE AREA, MARKET SHARE AND COMPETITION – Patient Origin -- Alliance Facilities Patient Origin by Fiscal Year" in Appendix A of the Official Statements.

(ii) The percentage of gross patient revenues received by the Alliance from each program (i.e., Medicare, TennCare/Medicaid, Managed Care, Commercial and Other, and Private Pay) for the most recently concluded fiscal year, as set forth under the caption "SOURCES OF REVENUE – Gross Patient Revenues by Source of Payment (Payor Mix)" in Appendix A of the Official Statements.

(iii) The historic patient utilization for the Alliance and aggregate utilization for all divisions for the prior 12 month period ending June 30, as set forth in the table under the caption "HISTORICAL UTILIZATION INFORMATION" in Appendix A of the Official Statements.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Alliance is an "obligated person" (as defined by the Rule), which have been filed in accordance with the Rule and the other rules of the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must have been filed with and be available from the MSRB. The Alliance must clearly identify each such other document so incorporated by reference.

5. Content of Quarterly Disclosure

The Alliance's Quarterly Disclosure will contain its Quarterly Financial Information.

6. Reporting of Significant Events

The following are Listed Events:

(a) principal and interest payment delinquencies;
(b) non-payment related defaults, if material;
(c) unscheduled draws on debt service reserves reflecting financial difficulties;
(d) unscheduled draws on any credit enhancement reflecting financial difficulties;
(e) substitution of credit or liquidity providers, or their failure to perform;
(f) adverse tax opinions; the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
(g) modifications of rights of the holders of the Bonds, if material;
(h) bond calls, if material, and tender offers;
(i) defeasance of all or any portion of the Bonds;
(j) release, substitution, or sale of property securing repayment of the Bonds, if material;
(k) rating changes;
(l) bankruptcy, insolvency, receivership or similar event of the Issuer;
(m) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
(n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

If the Alliance obtains knowledge of the occurrence of a Listed Event, the Alliance shall, in a timely manner not in excess of ten business days after the occurrence of the event, file a notice of such occurrence with the MSRB. Notice of Listed Events described in subsections (h) and (i) will be disseminated automatically, but will not be given any earlier than the notice (if any) of the underlying event is given to the Beneficial Owners of affected Bonds pursuant to the governing bond documents. The content of any notice of the occurrence of a Listed Event will be determined by the Alliance in accordance with the requirements of the Rule.

7. Filing Method

Any filing required hereunder shall be made by transmitting such disclosure, notice or other information in electronic format to the MSRB through the MSRB's Electronic Municipal Market Access (EMMA) system pursuant to procedures promulgated by the MSRB.

8. Termination of Reporting Obligation

The Alliance's obligations under this Agreement will terminate upon the defeasance (within the meaning of the Rule), prior redemption or payment in full of all of the Bonds. The Alliance will notify the MSRB that the Alliance's obligations under this Agreement have terminated. If the Alliance's obligations are assumed in full by some other entity, such person will be responsible for compliance with this Agreement in the same manner as if it were the Alliance and the Alliance will have no further responsibility hereunder.

9. Dissemination Agent

The Alliance may, from time to time, appoint a dissemination agent to assist it in carrying out its obligations under this Agreement, and the Alliance may, from time to time, discharge the dissemination agent, with or without appointing a successor dissemination agent. If at any time there is not a designated dissemination agent, the Alliance will be the dissemination agent.

10. Amendment

This Agreement may not be amended unless independent counsel experienced in securities law matters has rendered an opinion to the Alliance to the effect that the amendment does not violate the provisions of the Rule.

In the event that this Agreement is amended or any provision of this Agreement is waived, the notice of a Listed Event pursuant to subsection (6) under the heading “Reporting of Significant Events” will explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided in the Annual Disclosure. If an amendment or waiver is made in this Agreement which allows for a change in the accounting principles to be used in preparing financial statements, the Annual Disclosure for the year in which allows for a change in the accounting principles to be used in preparing financial statements, the Annual Disclosure for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison will include a qualitative discussion of the differences in the accounting principles and impact of the change in the accounting principles on the presentation of the financial information. A notice of the change in the accounting principles will be deemed to be material and will be filed with the MSRB.

11. Additional Information

Any registered owner of $1,000,000 or more in principal amount of Bonds shall receive, upon written request, any of the Annual Financial Information, Audited Financial Information or Quarterly Financial Information directly from the Alliance, by sending such request to Mountain States Health Alliance, 400 North State of Franklin Road, Johnson City, Tennessee 37604, Attn: Chief Financial Officer.

Nothing in this Agreement will be deemed to prevent the Alliance from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Disclosure or notice of occurrence of a Listed Event, in addition to that which is required by this Agreement. If the Alliance chooses to include any information in any Annual Disclosure or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Agreement, the Alliance will have no obligation under this Agreement to update such information or include it any future Annual Disclosure or notice of occurrence of a Listed Event.

12. Default

In the event of a failure of the Alliance to comply with any provision of this Agreement, the Underwriter or any Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Alliance to comply with its obligations under this Agreement. A default under this Agreement will not be deemed an Event of Default under the bond documents, and the sole remedy under this Agreement in the event of any failure of any party to comply with this Agreement will be an action to compel performance.

Acting by and through its duly authorized officer, the Alliance has caused this Continuing Disclosure Agreement to be executed under seal as of the 1st day of September, 2012.

MOUNTAIN STATES HEALTH ALLIANCE

By: ____
Its: Senior Vice President and
Chief Financial Officer

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

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BOOK-ENTRY ONLY SYSTEM

The description which follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Bonds, payments of principal of and premium, if any, and interest on the Bonds to The Depository Trust Company, New York, New York, its nominee, Participants or Beneficial Owners (each as hereinafter defined), confirmation and transfer of beneficial ownership interests in the Bonds and other bond-related transactions by and between DTC, Participants and Beneficial Owners is based solely on information furnished by DTC.

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

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

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners, however, are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Alliance or the Bond Trustee on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, the Issuer or the Alliance, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Alliance or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the respective Issuer or the Alliance. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates will be printed and delivered.

The Issuer or the Alliance may decide to discontinue the use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the respective Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

Neither the Issuer nor the Registrar has any responsibility or obligation to the Direct or Indirect Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Direct or Indirect Participant; (b) the payment by any Direct or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Bonds; (c) the delivery or timeliness of delivery by any Direct or Indirect Participant of any notice to any Beneficial Owner that is required or permitted under the terms of the Bond Resolution to be given to Bondholders; or (d) any other action taken by DTC, or its nominee, Cede & Co., as Bondholder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references in this Official Statement to the Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners, and Cede & Co. will be treated as the only holder of Bonds for all purposes under the Bond Resolution.

The Issuer may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the Bonds without the consent of Beneficial Owners or Bondholders.

Exhibit 11.4

Attachment C

Mountain States Bonds Official Statement for 2013 Bonds

NEW ISSUE - Book-Entry Only **Ratings: (See "RATINGS")**

In the opinion of Bass, Berry & Sims PLC, Bond Counsel, under existing law and subject to conditions described in "TAX MATTERS," interest on the Series 2013A Bonds (a) will not be included in gross income for federal income tax purposes, and (b) will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; such interest, however, is taken into account in determining the adjusted current earnings for purposes of the alternative minimum tax on corporations. Interest on the Series 2013A Bonds and the Series 2013B Bonds will be exempt from all state, county and municipal taxation in Tennessee except inheritance, transfer, estate taxes and except that interest may not be exempt from Tennessee franchise and excise taxes. A holder may be subject to other federal tax consequences as described in "TAX MATTERS."

$115,915,000
THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF THE CITY OF JOHNSON CITY, TENNESSEE

$16,235,000	$99,680,000
Hospital Revenue Bonds (Mountain States Health Alliance), Series 2013A	**Taxable Hospital Refunding Revenue Bonds (Mountain States Health Alliance), Series 2013B**

Dated: Date of Delivery **Maturity: As shown on inside cover page**

This Official Statement contains information relating to the offering of two series of bonds (each, a "Series") for the benefit of Mountain States Health Alliance (the "Alliance"), a Tennessee non-profit corporation, with all such bonds secured on a parity basis with each other and certain previously issued bonds and bonds that may be issued in the future.

At the request of the Alliance, The Health and Educational Facilities Board of the City of Johnson City, Tennessee (the "Issuer"), is issuing its $16,235,000 Hospital Revenue Bonds (Mountain States Health Alliance), Series 2013A (the "Series 2013A Bonds"), and its $99,680,000 Taxable Hospital Refunding Revenue Bonds (Mountain States Health Alliance), Series 2013B (the "Series 2013B Bonds"). The Series 2013A Bonds and the Series 2013B Bonds (together, the "Series 2013 Bonds") are being issued under separate Bond Trust Indentures between the Issuer and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the "Bond Trustee"). The Series 2013 Bonds are limited obligations of the Issuer, payable from payments to be made by the Alliance to the Bond Trustee pursuant to separate Loan Agreements between the Issuer and the Alliance, and pursuant to the Series 2013 Obligations, hereinafter defined. The Series 2013 Obligations are promissory notes of the Alliance issued under and secured by the Amended and Restated Master Trust Indenture dated as of February 1, 2000, as amended (the "Master Indenture"), between the Obligated Issuers (as defined herein) and The Bank of New York Mellon Trust Company, N.A., as master trustee, which provides the security for the Series 2013 Obligations.

The Series 2013 Bonds will be issued in denominations of $100,000 or any integral multiples of $5,000 in excess thereof and will bear interest at variable rates as described herein from their date of issuance until maturity or any earlier Conversion Date to the Fixed Rate (as defined herein). Interest on the Series 2013 Bonds will be payable on each Interest Payment Date as described herein, commencing September 3, 2013. Each Series of Series 2013 Bonds will be subject to redemption prior to maturity, including optional redemption, mandatory sinking fund redemption and extraordinary optional redemption as described herein. The Series 2013 Bonds will be subject to mandatory tender for purchase prior to maturity under the circumstances described herein.

The timely payment of the principal of and interest on the Series 2013 Bonds and the purchase price of tendered Series 2013 Bonds of each Series will be secured by separate irrevocable, transferable direct-pay letters of credit (each, a "Letter of Credit") issued by

usbank.

(the "Bank"). Each Letter of Credit will entitle the Bond Trustee to draw thereunder amounts equal to the principal amounts of the applicable Series 2013 Bonds outstanding and up to 37 days' interest thereon calculated at a rate of 12% per annum. Each Letter of Credit will expire on July 30, 2018, unless renewed, and each may be replaced by a Substitute Letter of Credit as described herein.

Payment of each Series of Series 2013 Bonds will be secured by a separate Letter of Credit. The Letter of Credit related to one Series of Series 2013 Bonds does not secure payments of principal or purchase price of or interest on the other Series of Series 2013 Bonds.

The Series 2013 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2013 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2013 Bonds purchased. Interest on the Series 2013 Bonds will accrue from the date of issuance and be payable by the Bond Trustee from funds available to it under the Bond Indentures to DTC for the account of DTC Participants, who are responsible for crediting the accounts of the beneficial owners.

The Series 2013 Bonds will be limited obligations of the Issuer, payable solely from the sources described in this Official Statement and will not constitute or create any debt, liability or obligation of the State of Tennessee or any political subdivision or agency thereof or a pledge of the faith and credit of the State of Tennessee or any political subdivision or agency thereof. Neither the faith and credit nor taxing power of any state or any political subdivision or agency thereof will be pledged to the payment of the Series 2013 Bonds.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information necessary to make an informed investment decision. For a description of certain risk factors relating to the Series 2013 Bonds, see "CERTAIN RISK FACTORS."

The Series 2013 Bonds are offered when, as and if issued, subject to the approving opinion of Bass, Berry & Sims PLC, Nashville and Knoxville, Tennessee, as Bond Counsel, and certain other conditions. In connection with the issuance of the Series 2013 Bonds, certain legal matters will be passed upon by Anderson & Fugate, Johnson City, Tennessee, as counsel to the Alliance; Samuel B. Miller, Esq., Johnson City, Tennessee, as counsel to the Issuer; Thompson Coburn LLP, St. Louis, Missouri, as counsel to the Bank; and Hunton & Williams LLP, as Underwriter's Counsel. The Public Advisory Corporation serves as financial advisor to the Alliance. It is expected that the Series 2013 Bonds will be issued and available for delivery to DTC in New York, New York, on or about July 30, 2013.

BofA Merrill Lynch

Dated: July 25, 2013

INFORMATION REGARDING MATURITIES, INITIAL RATE PERIODS AND REMARKETING AGENTS

The Health and Educational Facilities Board of the City of Johnson City, Tennessee

$16,235,000
Hospital Revenue Bonds
(Mountain States Health Alliance),
Series 2013A
Initial Rate Period: Weekly
Due: August 15, 2043
CUSIP: 478271 JY6*
Remarketing Agent: U.S. Bancorp Investments, Inc.

$99,680,000
Taxable Hospital Refunding Revenue Bonds
(Mountain States Health Alliance),
Series 2013B
Initial Rate Period: Weekly
Due: August 15, 2043
CUSIP: 478271 KA6*
Remarketing Agent: BofA Merrill Lynch

* CUSIP numbers have been assigned by an organization not affiliated with the Issuer or the Alliance and are included solely for the convenience of the holders of the Series 2013 Bonds. The Issuer and the Alliance are not responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Series 2013 Bonds or as indicated above.

No dealer, salesperson, or other person has been authorized to give any information or to make any representation, other than the information contained in this Official Statement, in connection with the offering of the Series 2013 Bonds and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer, the Alliance, or the Underwriter. The information in this Official Statement is subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Alliance, or others since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. The information set forth herein has been obtained from the Issuer, the Alliance and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by the Underwriter.

THE PRICES AT WHICH THE SERIES 2013 BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITER MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES APPEARING ON THE FOREGOING PAGE. IN ADDITION, THE UNDERWRITER MAY ALLOW CONCESSIONS OR DISCOUNTS TO DEALERS AND OTHERS FROM THE PRICES AT WHICH THE SERIES 2013 BONDS ARE OFFERED TO THE PUBLIC. IN CONNECTION WITH THE OFFERING OF THE SERIES 2013 BONDS, THE UNDERWRITER MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2013 BONDS WILL NOT BE REGISTERED BY THE ISSUER OR THE ALLIANCE UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAW AND WILL NOT BE LISTED ON ANY STOCK OR OTHER SECURITIES EXCHANGE. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER FEDERAL, STATE, MUNICIPAL, OR OTHER GOVERNMENTAL ENTITY OR AGENCY SHALL HAVE PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

IN MAKING ANY INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS OFFICIAL STATEMENT CONTAINS FORWARD-LOOKING STATEMENTS THAT ARE SUBJECT TO A NUMBER OF RISKS AND UNCERTAINTIES, INCLUDING THOSE DESCRIBED IN "CERTAIN RISK FACTORS," MANY OF WHICH ARE BEYOND THE ISSUER'S AND THE ALLIANCE'S CONTROL. FORWARD-LOOKING STATEMENTS ARE TYPICALLY IDENTIFIED BY WORDS SUCH AS "BELIEVE," "EXPECT," "ANTICIPATE," "INTEND," "ESTIMATE," AND SIMILAR EXPRESSIONS. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE CONTEMPLATED BY THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF FACTORS ("CAUTIONARY STATEMENTS") SUCH AS THOSE DESCRIBED IN "CERTAIN RISK FACTORS" HEREIN. IN LIGHT OF THESE RISKS AND UNCERTAINTIES, THERE CAN BE NO ASSURANCE THAT THE RESULTS AND EVENTS CONTEMPLATED BY THE FORWARD-LOOKING INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT WILL IN FACT TRANSPIRE. YOU ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS. NEITHER THE ISSUER NOR THE ALLIANCE UNDERTAKE ANY OBLIGATION TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS. ALL SUBSEQUENT WRITTEN OR ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE ISSUER AND THE ALLIANCE OR PERSONS ACTING ON THEIR BEHALF ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS.

Other than with respect to information concerning the Bank and the Letters of Credit contained under the headings "THE LETTERS OF CREDIT - Terms of the Letters of Credit" and "THE BANK" and in Appendix F, none of the information in this Official Statement has been supplied or verified by the Bank, and the Bank does not make any warranty, express or implied, as to (i) the accuracy or completeness of such information, (ii) the validity of the Bonds, or (iii) the tax status of interest on the Bonds.

MATTERS RELATED TO THE REMARKETING AGENTS

The Remarketing Agent is Paid by the Alliance. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Series 2013 Bonds that are optionally or mandatorily tendered by the owners thereof, all as further described in this Official Statement. The Remarketing Agent is appointed by the Alliance and is paid by the Alliance for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Series 2013 Bonds.

The Remarketing Agent Routinely Purchases Series 2013 Bonds for its Own Account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Series 2013 Bonds for its own account. The Remarketing Agent, in its sole discretion, routinely acquires tendered Series 2013 Bonds for its own inventory in order to achieve a successful remarketing of the Series 2013 Bonds (i.e., because there otherwise are not enough buyers to purchase the Series 2013 Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Series 2013 Bonds, and may cease doing so at any time without notice. The Remarketing Agent also may make a market in the Series 2013 Bonds by routinely purchasing and selling Series 2013 Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Series 2013 Bonds. The Remarketing Agent also may sell any Series 2013 Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series 2013 Bonds. The purchase of Series 2013 Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Series 2013 Bonds in the market than is actually the case. The practices described above also may reduce the supply of Series 2013 Bonds that may be tendered in a remarketing.

Series 2013 Bonds May Be Offered at Different Prices on any Date. The Remarketing Agent is required to determine on the Adjustment Date (as defined herein) the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Series 2013 Bonds at par plus accrued interest, if any, on the Adjustment Date. The interest rate will reflect, among other factors, the level of market demand for the Series 2013 Bonds (including whether the Remarketing Agent is willing to purchase Series 2013 Bonds for its own account). There may or may not be Series 2013 Bonds tendered and remarketed on an Adjustment Date, the Remarketing Agent may or may not be able to remarket any Series 2013 Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Series 2013 Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Series 2013 Bonds at the remarketing price. In the event the Remarketing Agent owns any Series 2013 Bonds for its own account, the Remarketing Agent may, in its sole discretion in a secondary market transaction outside the tender process, offer the Series 2013 Bonds on any date, including the Adjustment Date, at a discount to par to some investors.

The Ability To Sell the Series 2013 Bonds other than through Tender Process May Be Limited. While the Remarketing Agent may buy and sell Series 2013 Bonds, it is not obligated to do so and may cease doing so at any time without notice. Thus, investors who purchase the Series 2013 Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series 2013 Bonds other than by tendering the Series 2013 Bonds in accordance with the tender process. The Letters of Credit are not available to purchase Series 2013 Bonds other than those tendered in accordance with a sale of Series 2013 Bonds by the bondholder to the Remarketing Agent. The Letters of Credit will only be drawn when such Series 2013 Bonds have been properly tendered in accordance with the terms of the transaction.

Remarketing Agent May Be Removed, Resign or Cease Remarketing the Series 2013 Bonds Without a Successor Being Named. Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement.

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$115,915,000
THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF THE CITY OF JOHNSON CITY, TENNESSEE

$16,235,000 **Hospital Revenue Bonds** **(Mountain States Health Alliance),** **Series 2013A**	**$99,680,000** **Taxable Hospital Refunding Revenue Bonds** **(Mountain States Health Alliance),** **Series 2013B**

OFFICIAL STATEMENT

INTRODUCTION

This Official Statement, including its cover page and appendices, provides information in connection with the issuance and sale of two series of bonds for the benefit of Mountain States Health Alliance (the "Alliance"), a Tennessee non-profit corporation, with all such bonds secured on a parity basis with each other and certain previously issued bonds and bonds that may be issued in the future. See below "Sources of Payment and Security for the Series 2013 Bonds."

The Series 2013 Bonds

At the request of the Alliance, The Health and Educational Facilities Board of the City of Johnson City, Tennessee (the "Issuer") will issue its $16,235,000 Hospital Revenue Bonds (Mountain States Health Alliance), Series 2013A (the "Series 2013A Bonds"), and its $99,680,000 Taxable Hospital Refunding Revenue Bonds, Series 2013B (the "Series 2013B Bonds" and, together with the Series 2013A Bonds, the "Series 2013 Bonds").

Capitalized terms used herein and not otherwise defined have the meanings given thereto (1) in the Amended and Restated Master Trust Indenture dated as of February 1, 2000, as amended (the "Master Indenture"), between the Obligated Issuers (as defined below) and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee"), and (2) in separate Bond Trust Indentures, each dated as of July 1, 2013 (the "2013A Bond Indenture" and the "2013B Bond Indenture" and together, the "Bond Indentures"), and each between the Issuer and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the "Bond Trustee").

The Alliance

The Alliance is a Tennessee nonprofit corporation that is an "exempt organization" under Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). The Alliance provides an integrated, comprehensive continuum of care to people in portions of Tennessee, Virginia, Kentucky and North Carolina. The Alliance currently operates 13 hospital facilities containing a total of 1,623 licensed beds, and serves a population of more than 1,000,000 in 29 counties and two independent cities in the States of Tennessee, Virginia, Kentucky and North Carolina. Its integrated health care delivery system also includes 23 primary/preventive care centers and 12 outpatient care sites. **For additional information regarding the Alliance, see Appendix A.**

The Obligated Issuers

The Alliance, Blue Ridge Medical Management Corporation ("Blue Ridge"), Norton Community Hospital ("Norton") and Smyth County Community Hospital ("Smyth") are each an Obligated Issuer as such term is defined in the Master Indenture. Only the Obligated Issuers are obligated to make payments on the Series 2013 Bonds. See in Appendix A "HISTORY AND OVERVIEW - Operations of Subsidiary and Other Affiliates" and "CONDENSED SUMMARY OF REVENUE AND EXPENSES; FINANCIAL STATEMENTS."

The Bank

The timely payment of the principal of and interest on each Series of the Series 2013 Bonds and the purchase price thereof will be secured by separate irrevocable transferable direct-pay letters of credit issued by U.S. Bank National Association. The Letter of Credit related to one Series of Series 2013 Bonds does not secure payments of principal or purchase price of or interest on the other Series of Series 2013 Bonds. See “THE BANK” and Appendix F.

The Remarketing Agents

U.S. Bancorp Investments, Inc. will serve as the Remarketing Agent for the Series 2013A Bonds. Merrill Lynch, Pierce, Fenner and Smith Incorporated will serve as the Remarketing Agent for the Series 2013B Bonds.

Plan of Finance

The proceeds of the Series 2013 Bonds are being loaned to the Alliance pursuant to separate Loan Agreements each dated as of July 1, 2013 (respectively, the “2013A Loan Agreement” and the “2013B Loan Agreement” and together, the “Loan Agreements”), between the Issuer and the Alliance. The proceeds of the Series 2013A Bonds will be used by the Alliance (1) to finance or refinance capital improvements and equipment acquisitions at facilities owned by the Alliance and its affiliates and (2) to pay certain expenses incurred in connection with the issuance of the Series 2013A Bonds. The proceeds of the Series 2013B Bonds will be used by the Alliance (1) to refund $97,915,000 principal amount of the Issuer’s Hospital Revenue Bonds (Mountain States Health Alliance), Series 2007B-2, and (2) to pay certain expenses incurred in connection with the issuance of the Series 2013B Bonds. See “PLAN OF FINANCE.”

Book-Entry Registration

The Series 2013 Bonds initially will be issued in the form of one registered bond in the aggregate principal amount of each maturity of each Series and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). DTC will maintain a book-entry system for recording ownership interest in the Series 2013 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2013 Bonds purchased. Principal of, any redemption price for, and interest on the Series 2013 Bonds will be payable by the Bond Trustee from funds available to it under the Bond Indentures to DTC for the account of DTC Participants (as defined herein), who are responsible for crediting the accounts of the beneficial owners. See Appendix G - “BOOK-ENTRY ONLY SYSTEM.”

Sources of Payment and Security for the Series 2013 Bonds

The Series 2013 Bonds shall not constitute a debt or obligation of the State of Tennessee or any political subdivision or agency thereof or a pledge of the faith and credit of any state or any political subdivision or agency of any state, including the Issuer. The Series 2013 Bonds are special, limited obligations of the Issuer, each payable exclusively from the respective Trust Estates as described in “THE SERIES 2013 BONDS - General” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS - Trust Estate.”

To evidence the Alliance’s repayment obligations in connection with the Series 2013 Bonds, the Alliance will issue under the Master Indenture (1) its $16,235,000 Mountain States Health Alliance Note (The Health and Educational Facilities Board of the City of Johnson City, Tennessee) Series 2013A (the “Series 2013A Obligation”), and (2) its $99,680,000 Mountain States Health Alliance Note (The Health and Educational Facilities Board of the City of Johnson City, Tennessee) Series 2013B (the “Series 2013B Obligation” and, together with the Series 2013A Obligation, the “Series 2013 Obligations”).

In the Master Indenture, the Alliance and the other Obligated Issuers have covenanted, and any future Obligated Issuer would be required to covenant, to operate its facilities in such a manner and to charge such fees and rates as will be sufficient to provide funds (together with other available amounts) to pay debt service on its outstanding indebtedness, to pay certain other expenses and indebtedness of the Alliance and all future Obligated Issuers, and to maintain a coverage ratio of Income Available for Debt Service to Maximum Annual Debt Service equal to at least 1.30:1. For a description of such covenants, including exceptions thereto, see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS” and Appendix C - “SUMMARY OF THE FINANCING DOCUMENTS - SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE.”

Certain existing bonds of the Issuer and other conduit issuers, as well as bonds of the Alliance, previously have been issued and are secured by Obligations issued by the Alliance and the other Obligated Issuers under the Master Indenture ("Master Obligations") and therefore are secured on a parity with the Series 2013 Bonds. The reimbursement obligations of the Alliance with respect to the Letters of Credit also will be secured on a parity basis under the Master Indenture. The Alliance and any future Obligated Issuer have the right, subject to specified conditions, to incur additional indebtedness secured on a parity basis with the Series 2013 Obligations and therefore on a parity basis with the Series 2013 Bonds. See also "PLAN OF FINANCE" for a description of bonds expected to be issued and secured on a parity basis.

No Debt Service Reserve Fund

The Series 2013 Bonds are not secured by any Debt Service Reserve Fund.

Tax Matters

In the opinion of Bass, Berry & Sims PLC, Bond Counsel, under existing law and subject to conditions described under "TAX MATTERS," interest on the Series 2013A Bonds (a) will not be included in gross income for federal income tax purposes and (b) will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest on the Series 2013A Bonds is taken into account in determining a corporation's alternative minimum income tax. Holders of Series 2013A Bonds may be subject to other federal tax consequences, as described herein under "TAX MATTERS."

Interest on the Series 2013B Bonds will be included in gross income for federal income tax purposes.

In the opinion of Bond Counsel, interest on the Series 2013 Bonds will be exempt from all state, county, and municipal taxation in the State of Tennessee except inheritance, gift, and estate taxes and except that interest may not be exempt from Tennessee franchise and excise taxes.

Continuing Disclosure

To permit compliance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12"), the Alliance will execute a Continuing Disclosure Agreement in connection with the issuance of the Series 2013 Bonds in which it will agree for the benefit of the holders of the Series 2013 Bonds to provide certain annual financial information and operating data and certain quarterly financial data as to the Alliance and any future Obligated Issuer under the Master Indenture, and to provide notice of certain enumerated events, if material. See "CONTINUING DISCLOSURE AGREEMENT" for a more complete description of the Continuing Disclosure Agreement and the Alliance's performance under previous continuing disclosure agreements.

Professionals Involved in the Offering

Bass, Berry & Sims PLC will act as Bond Counsel in connection with the issuance of the Series 2013 Bonds. In connection with the issuance of the Series 2013 Bonds, certain legal matters will be passed upon by Anderson & Fugate, Johnson City, Tennessee, as counsel to the Alliance; Samuel B. Miller, Esq., Johnson City, Tennessee, as counsel to the Issuer; Thompson Coburn LLP, St. Louis, Missouri, as counsel to the Bank; and Hunton & Williams LLP, as Underwriter's Counsel. The Alliance's consolidated financial statements for the fiscal years ended June 30, 2012 and 2011, included in Appendix B hereto, have been audited by Pershing Yoakley & Associates, P.C.

Relationships of the Parties

The Alliance has entered into interest rate exchange agreements, or swap agreements, with Bank of America, which is an affiliate of Bank of America Merrill Lynch, underwriter for the Series 2013 Bonds.

Acceleration

Subject to certain conditions, the Series 2013 Bonds are subject to acceleration of the maturity date upon the happening of an Event of Default under the Bond Indentures. See "SUMMARY OF THE FINANCING DOCUMENTS - SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURES" in Appendix C.

Bondholders' Risks

Payment of the Series 2013 Bonds is dependent in part on the ability of the Alliance and the other Obligated Issuers to make payments under the Loan Agreements and the Master Indenture. The Alliance's ability to make such payments may be adversely affected by many factors. There may also be legal and practical limitations on the enforcement of remedies and amounts that may be realized upon enforcement of remedies available to the Bond Trustee and owners of the Series 2013 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS" and "CERTAIN RISK FACTORS" herein and "SOURCES OF REVENUE" in Appendix A.

Legal Document Summaries and Definitions

Certain provisions of the Master Indenture, the Bond Indentures and the Loan Agreements are summarized in Appendix C hereto. Other definitions of certain terms used in this Official Statement are also set forth in Appendix C hereto.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

The quotations from, and summaries and explanations of, the statutes, regulations and documents referenced herein do not purport to be complete and reference is made to those statutes, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such documents may be obtained during the offering period, upon request to the Alliance and upon payment to the Alliance of a charge for copying, mailing and handling, at 400 North State of Franklin Road, Johnson City, TN 37604-6094, Attn: Legal Department.

Purchasers of the Series 2013 Bonds should note the use of forward-looking information and the covenants related thereto.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between either the Issuer or the Alliance and the purchasers or holders of any of the Series 2013 Bonds.

This introduction is not a summary of this Official Statement. It is only a summary description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Series 2013 Bonds to potential investors is made only by means of the entire Official Statement.

THE ISSUER

The Issuer is a public nonprofit corporation organized under the laws of the State of Tennessee. The Issuer was incorporated on May 3, 1973, by the Board of Commissioners of the City of Johnson City, Tennessee, pursuant to the laws now codified under Tennessee Code Annotated Section 48-101-301, *et seq.* (the "Tennessee Act"). The Tennessee Act authorizes the Issuer, among other things, to issue its bonds, to acquire, improve, maintain, extend, equip and furnish hospital facilities either within or without the corporate limits of the City of Johnson City, and in certain other jurisdictions in Tennessee, to mortgage its projects, to pledge the revenues and receipt therefrom, and to sell, exchange, donate and convey any or all of its properties. The Issuer has no taxing power.

THE ALLIANCE

The Alliance is a Tennessee nonprofit corporation recognized by the Internal Revenue Service as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). Today, the Alliance directly and through related entities provides an integrated, comprehensive continuum of care to people in 29 counties and two independent cities in Tennessee, Virginia, Kentucky and North Carolina. The Alliance was initially incorporated as Memorial Hospital on April 12, 1945, as a non-sectarian, general welfare, not-for-profit corporation. In connection with the relocation of its operations, it changed its name to Johnson City Medical Center Hospital, Inc. in 1983. In 1998, Johnson City Medical Center Hospital, Inc. assumed operating responsibility for five hospitals and related assets acquired from Columbia/HCA. In recognition of its expanded facilities and scope of services resulting from the 1998 acquisition, Johnson City Medical Center Hospital, Inc. changed its name to Mountain States Health Alliance.

The Alliance currently owns or controls the following facilities:

Facility	Location
Johnson City Medical Center	Johnson City, TN
James H. & Cecile Quillen Rehabilitation Hospital	Johnson City, TN
Woodridge Hospital	Johnson City, TN
Franklin Woods Community Hospital	Johnson City, TN
Indian Path Medical Center	Kingsport, TN
Sycamore Shoals Hospital	Elizabethton, TN
Johnson County Community Hospital	Mountain City, TN
Smyth County Community Hospital(1)	Marion, VA
Norton Community Hospital(2)	Norton, VA
Dickenson Community Hospital(2)	Clintwood, VA
Russell County Medical Center	Lebanon, VA
Johnston Memorial Hospital(2)	Abingdon, VA

(1) 80% membership interest held by the Alliance.
(2) 50.1% membership interest held by the Alliance.

The Alliance now has a total of 1,623 licensed beds serving a population of more than 1,000,000. In addition to its hospitals, the Alliance's integrated health care delivery system includes 23 primary/preventive care centers and 12 outpatient care sites. The Alliance's medical facilities provide a full spectrum of general and specialty medical services, including rehabilitative services for individuals with brain injuries, strokes and spinal cord injuries, in-patient psychiatric services and centers for health focusing on cardiovascular health, pulmonary medicine, women's health and cancer therapy, among other services. The Alliance also serves as a clinical training facility for medical students, residents, and nursing students from the East Tennessee State University's James H. Quillen College of Medicine and the School of Public and Allied Health. **For additional information regarding the Alliance, see Appendix A.**

The Alliance, Blue Ridge, Norton and Smyth are each an Obligated Issuer as such term is used in the Master Indenture. Blue Ridge is a wholly-owned, for-profit subsidiary of the Alliance. Norton is a Virginia non-stock corporation in which the Alliance owns a 50.1% interest. Smyth is a Virginia non-stock corporation in which the Alliance owns an 80% interest. See Appendix A - "HISTORY AND OVERVIEW - Operations of Subsidiary and Other Affiliates."

The Alliance also operates the hospital facilities in Dickenson County and Washington County, Virginia, through ownership of a majority interest in the membership of the corporations owning such facilities. None of such corporations are an Obligated Issuer or otherwise are responsible for repayment of amounts due from the Alliance with respect to the Series 2013 Bonds, and none of the assets of such corporations are pledged as security for the Alliance's payment obligations.

Only the Obligated Issuers are obligated to pay the Series 2013 Bonds. The audited and unaudited financial statements of the Alliance included as Appendices B and C reflect the assets, liabilities, revenues and expenses of related organizations that are not Obligated Issuers. See Appendix A − "CONDENSED SUMMARY OF REVENUE AND EXPENSES; FINANCIAL STATEMENTS."

THE SERIES 2013 BONDS

Set forth below is a summary of certain provisions of the Series 2013 Bonds. General information describing the Series 2013 Bonds appears elsewhere in this Official Statement. That information should be read in conjunction with this summary, which is qualified in its entirety by reference to the Bond Indentures, and the forms of the Series 2013 Bonds. See "SUMMARY OF THE FINANCING DOCUMENTS" in Appendix C hereto.

General

The Series 2013 Bonds shall be initially issued as fully registered bonds without coupons in denominations of $100,000 or any integral multiple of $5,000 in excess thereof. The Series 2013 Bonds will mature, subject to prior redemption as described herein, on August 15, in the years noted below, and will bear interest payable on the first Business Day of each month, commencing September 3, 2013, so long as the Series 2013 Bonds bear interest at the Weekly Rate, as defined below. In the event the interest on either Series of Series 2013 Bonds is converted to the Medium-Term Rate or the Fixed Rate, as defined below, interest will be payable semiannually on February 15 and August 15 of each year (each such date referred to herein as an "Interest Payment Date"). The Weekly Rate for Series 2013 Bonds of different Series may be different rates at any time.

The Series 2013 Bonds will mature on August 15, 2043.

Interest on the Series 2013 Bonds shall be computed from the Interest Payment Date to which interest on the Series 2013 Bonds has been paid or duly provided for next preceding the date of authentication thereof, unless (a) such date of authentication shall be prior to the first Interest Payment Date, in which case interest shall be computed from the Closing Date, or (b) such date of authentication shall be an Interest Payment Date to which interest on the Series 2013 Bonds has been paid or duly provided for, in which case interest shall be computed from such Interest Payment Date, or (c) such date of authentication shall be after any Record Date and before the next succeeding Interest Payment Date, in which case interest shall be computed from the next succeeding Interest Payment Date.

The principal and premium, if any, of the Series 2013 Bonds, and the purchase price for any Series 2013 Bonds shall be payable at the office of the Bond Trustee in East Syracuse, New York, upon surrender of the Series 2013 Bonds at such office. Interest on the Series 2013 Bonds (other than Defaulted Interest) shall be payable by check drawn upon the Bond Trustee and paid to the Persons in whose names the Series 2013 Bonds are registered on the Bond Register as of the close of business on the Record Date next preceding the relevant Interest Payment Date, provided that during Weekly Rate Periods, on written request to the Bond Trustee by any Person who is the registered owner of Series 2013 Bonds of a Series in a principal amount of $1,000,000 or more received by the Bond Trustee on or before 15 days prior to such Record Date (which instructions shall remain in effect until revoked by subsequent written instructions), interest on such Series 2013 Bonds shall be payable by wire transfer of immediately available funds to an account at a bank located in the continental United States specified by the person in whose name such Series 2013 Bonds are registered. Any interest on any Series 2013 Bond which is payable but which is not punctually paid or duly provided for ("Defaulted Interest") shall cease being payable to the person in whose name such Series 2013 Bond is registered on the Record Date and instead shall be payable to the person in whose name such Series 2013 Bond is registered at close of business on a Special Record Date selected by the Bond Trustee and which shall be at least 10 days but not more than 30 days before the date selected by the Bond Trustee for payment of such Defaulted Interest. The Bond Trustee shall give Notice by Mail of the Special Record Date and date for payment of Defaulted Interest at least 10 days before the Special Record Date.

THE SERIES 2013 BONDS ARE, AND ARE TO BE, EQUALLY AND RATABLY SECURED, TO THE EXTENT PROVIDED IN THE APPLICABLE BOND INDENTURE, SOLELY BY A PLEDGE OF THE REVENUES AND OTHER FUNDS PLEDGED UNDER SUCH BOND INDENTURE. THE SERIES 2013 BONDS, TOGETHER WITH PREMIUM, IF ANY, AND THE INTEREST THEREON, ARE SPECIAL AND LIMITED OBLIGATIONS OF THE ISSUER. THE SERIES 2013 BONDS AND THE INTEREST THEREON SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF TENNESSEE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY OF JOHNSON CITY, TENNESSEE. THE CITY OF JOHNSON CITY, TENNESSEE, SHALL NOT IN ANY EVENT BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2013 BONDS, OR FOR THE PERFORMANCE OF ANY PLEDGE, MORTGAGE, OBLIGATION OR AGREEMENT OF ANY KIND WHATSOEVER THEREIN OR INDEBTEDNESS BY THE ISSUER, AND NEITHER THE SERIES 2013 BONDS NOR ANY OF THE ISSUER AGREEMENTS OR OBLIGATIONS DESCRIBED IN THE SERIES 2013 BONDS OR OTHERWISE SHALL BE CONSTRUED TO CONSTITUTE AN INDEBTEDNESS OF THE CITY OF JOHNSON CITY, TENNESSEE, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISIONS WHATSOEVER. THE ISSUER HAS NO TAXING AUTHORITY.

Interest Rate on the Series 2013 Bonds

The Remarketing Agent shall determine the interest rate on the Series 2013 Bonds of a Series for each Weekly Rate Period, as defined in the next sentence. "Weekly Rate Periods" shall mean any period from and commencing on any Wednesday (or in certain circumstances on a Proposed Conversion Date) and ending on the earliest of (a) the next succeeding Tuesday (including such Tuesday), (b) the Conversion Date to the Fixed Rate, (c) the Interest Payment Date on which a Medium-Term Rate Period begins or (d) maturity of the Series 2013 Bonds of that Series. The interest rate on the Series 2013 Bonds of a series shall be determined by the Remarketing Agent for each Weekly Rate Period as the rate equal to the lowest rate which, having due regard for general financial conditions and such other special conditions as in the judgment of the Remarketing Agent may have a bearing on the rate, would produce as nearly as possible a par bid for the Series 2013 Bonds of a series (without regard to accrued interest) in the secondary market on the first day of such Weekly Rate Period. The rate for any Weekly Rate Period shall be determined prior to 10:00 a.m., New York City time on the first day for any Weekly Rate Period. The first day of any Weekly Rate Period is referred to herein as an "Adjustment Date." On the Adjustment Date, the Remarketing Agent shall notify the Bond Trustee no later than 10:00 a.m., New York City time of the rate applicable for such Weekly Rate Period. Any time after 10:00 a.m., New York City time on the Adjustment Date, any Bondholder may contact the Remarketing Agent to obtain such rate.

In the event the Remarketing Agent fails to determine the rate for any Weekly Rate Period, the rate of interest borne by the Series 2013 Bonds for such Weekly Rate Period shall be the SIFMA Municipal Swap Index.

In no event shall the interest rate borne by the Series 2013 Bonds during any Weekly Rate Period exceed the lesser of 12% per annum and the maximum contract rate of interest permitted by the laws of the State of Tennessee. During the Weekly Rate Periods, interest on the Series 2013 Bonds will be computed on the basis of a 365- or 366-day year, as the case may be, and the actual days elapsed.

The determination of any interest rate in accordance with the provisions of the Bond Indentures shall be conclusive and shall be binding upon the Bond Trustee, the Issuer, the Alliance, the Bank, the Remarketing Agent and the Bondholders.

Effective on any Interest Payment Date while the Weekly Rate Periods are in effect, the Alliance shall have the option, with the written approval of the Bank, the Issuer and the Remarketing Agent, to change the Rate Periods for a Series of the Series 2013 Bonds from the Weekly Rate Periods then in effect to the Medium-Term Rate Periods or to a Fixed Rate Period. Upon such event, the Bond Trustee shall notify the holders of the Series 2013 Bonds of such conversion, and the Series 2013 Bonds shall be subject to mandatory tender for purchase as described herein. The date on which the interest rate on the Series 2013 Bonds is converted to a Fixed Rate is referred to herein as the "Conversion Date."

Registration and Transfer of Series 2013 Bonds

The Bond Indentures contain the following provisions with respect to registration of transfer and exchange of Series 2013 Bonds. Such provisions do not apply while the Series 2013 Bonds are held by DTC. See Appendix G - "BOOK-ENTRY ONLY SYSTEM."

Any holder of a Series 2013 Bond, in person or by his duly authorized attorney, may register the transfer of his Series 2013 Bond on the Bond Register, upon surrender thereof at the office of the Bond Trustee in East Syracuse, New York, together with a written instrument of transfer (in such form as shall be reasonably satisfactory to the Bond Trustee) executed by the holder or his duly authorized attorney; and upon surrender for registration of transfer of any Series 2013 Bond, the Issuer shall execute and the Bond Trustee shall authenticate and deliver in the name of the designated transferee or transferees a new Series 2013 Bond or Bonds of the same Stated Maturity, aggregate principal amount and tenor as the Series 2013 Bond surrendered and of any Authorized Denomination.

Series 2013 Bonds may be exchanged at the office of the Bond Trustee in East Syracuse, New York, for an equal aggregate principal amount of Series 2013 Bonds of the same Series, Stated Maturity, interest rate, aggregate principal amount and tenor as the Series 2013 Bonds being exchanged and of any Authorized Denomination. The Issuer shall execute and the Bond Trustee shall authenticate and deliver Series 2013 Bonds which the Bondholder making the exchange is entitled to receive, bearing numbers not contemporaneously then outstanding.

Such registrations of transfers or exchanges of Series 2013 Bonds shall be without charge to the holders of such Series 2013 Bonds, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the Holder of the Series 2013 Bond requesting such registration of transfer or exchange as a condition precedent to the exercise of such privilege. The Bond Trustee shall not be required (a) to transfer or exchange any Series 2013 Bond during the period from a Record Date to an Interest Payment Date or from the Business Day prior to a Special Record Date to the date for payment of Defaulted Interest, or (b) to make any exchange or registration of transfer of any Series 2013 Bonds called for redemption in whole or in part.

The person in whose name any Series 2013 Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of, or on account of, either principal or interest shall be made only to or upon the order of such person or his duly authorized attorney, but such registration may be changed as hereinabove described. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Series 2013 Bond to the extent of the sum or sums so paid.

Redemption

The Series 2013 Bonds may not be called for redemption during the Weekly Rate Periods except as described below. This Official Statement does not describe any redemption provisions for Series 2013 Bonds during the Medium-Term Rate Period or after the Conversion Date. The Letters of Credit do not secure the payment of any premium due to the optional redemption of Series 2013 Bonds by the Alliance.

Optional Redemption. While the Weekly Rate Periods are in effect, the Series 2013 Bonds of each Series are subject to optional redemption upon the direction of the Alliance, in whole or in part on any Business Day, at the direction of the Alliance, with the prior written consent of the Bank if proceeds drawn under any Letter of Credit will be used for redemption of Series 2013 Bonds, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date.

Extraordinary Optional Redemption. The Series 2013 Bonds are callable for redemption prior to maturity in the event of damage to or destruction of the Property of any member of the Obligated Group (as defined in the Master Indenture) or any part thereof or condemnation of the Facilities or any part thereof, if the Net Proceeds of insurance or condemnation received in connection therewith to the extent such Net Proceeds are not applied either to any lawful purposes of the Obligated Group or to the repair, replacement, restoration or reconstruction of the affected Facilities pursuant to the Master Indenture, but only to the extent of the funds provided for in the Master Indenture. If thus called for redemption, Series 2013 Bonds shall be subject to redemption by the Issuer or the Alliance, as applicable, at any time, in whole or in part, and if in part, the Alliance may decide the amount of each Series of Series 2013 Bonds to be redeemed. Such redemption shall be at the principal amount thereof plus accrued interest to the redemption date, and without premium, from the proceeds of such insurance or condemnation award or such sale but not in excess of the amount of such proceeds applied to such purpose. If no direction is given by the Alliance, the Bond Trustee will redeem Series 2013 Bonds of each Series then outstanding pro rata based on the then outstanding principal amount of each Series.

Mandatory Sinking Fund Redemption. Subject to the credit described following the tables below, the Series 2013 Bonds of each Series are subject to Mandatory Sinking Fund Redemption prior to maturity on August 15 in the years and in the principal amounts specified below for each Series of Series 2013 Bonds, at a redemption price equal to 100% of the principal amount thereof plus accrued interest:

Series 2013A Bonds

August 15,	Principal Amount
2040	$ 1,260,000
2041	1,650,000
2042	1,300,000
2043	12,025,000

Series 2013B Bonds

August 15,	Principal Amount
2039	$16,715,000
2040	15,990,000
2041	16,070,000
2042	17,590,000
2043	33,315,000

At its option, to be exercised on or before the forty-fifth (45th) day next preceding any such redemption date, the Alliance may (i) deliver to the Bond Trustee for cancellation bonds of the applicable Series of Series 2013 Bonds to be redeemed, in any aggregate principal amount desired, and/or (ii) receive a credit in respect of its redemption obligation under this mandatory redemption provision for any bonds of the applicable Series of Series 2013 Bonds of the maturity to be redeemed which prior to said date have been purchased or redeemed (otherwise than through the operation of this mandatory sinking fund redemption provision) and canceled by the Bond Trustee and not theretofore applied as a credit against any redemption obligation under this mandatory sinking fund provision. Each Series 2013 Bond so delivered or previously purchased or redeemed shall be credited by the Bond Trustee at 100% of the principal amount thereof on the obligation of the Issuer or the Alliance, as applicable, on such payment date and any excess shall be credited on future redemption obligations in such order as the Alliance directs, and the principal amount of Series 2013 Bonds of the applicable Series to be redeemed by operation of the mandatory sinking fund provision shall be accordingly reduced. The Alliance shall on or before the forty-fifth (45th) day next preceding each payment date furnish the Bond Trustee with its certificate indicating whether or not and to what extent the provisions of clauses (i) and (ii) of this paragraph are to be availed of with respect to such payment and confirm that funds for the balance of the next succeeding prescribed payment will be paid on or before the next succeeding payment date.

Notice of Redemption. The Bond Trustee shall cause notice of the call for any such redemption identifying the Series 2013 Bonds to be redeemed to be sent not less than 30 nor more than 60 days prior to the redemption date (a) by first-class mail postage prepaid, to the holder of each such Series 2013 Bond to be redeemed at his address as it appears on the registration books of the Bond Trustee, (b) by first-class mail, to at least two organizations registered with the Securities and Exchange Commission as securities depositories, (c) to at least one information service of national recognition which disseminates redemption information with respect to municipal securities, and (d) if a Letter of Credit is in effect, to the Bank. Failure to give any notice described in (a), or any defect therein, shall not affect the validity of any proceedings for the redemption of any Series 2013 Bonds with respect to which no such failure has occurred and failure to give any notice described in (b) or (c), or any defect therein, shall not affect the validity of any proceedings for the redemption of any Series 2013 Bonds with respect to which the notice specified in (a) is correctly given. Any notice mailed as described above shall conclusively be presumed to have been given whether or not actually received by any Holder. All Series 2013 Bonds called for redemption shall cease to bear interest on the specified redemption date, provided funds for their redemption are on deposit at the place of payment on the date fixed for redemption. Notwithstanding the foregoing, if the depository is DTC, the Bond Trustee shall send redemption notices in accordance with DTC procedures.

Partial Redemption of Series 2013 Bonds. If less than all the Series 2013 Bonds of a Series are to be redeemed, the particular Series 2013 Bonds of a Series or portions thereof to be redeemed shall be selected by the Bond Trustee by lot or in such other manner as the Bond Trustee shall deem appropriate, which shall be deemed to include pro rata redemption of Series 2013 Bonds of a Series, and which may provide for the selection for redemption of portions (equal to Authorized Denominations) of the principal of Series 2013 Bonds of a Series; provided that (a) if at the time of selection of any Series 2013 Bonds for redemption any Series 2013 Bonds of a Series are Pledged Bonds or Borrower Bonds, such Pledged Bonds or Borrower Bonds shall be selected for redemption prior to any other Series 2013 Bonds of such Series, and (b) if at the time of selection, the Bond Trustee has received notice of tender of any Series 2013 Bonds for which the Optional Tender Date will be on or after the redemption date, the Bond Trustee (after redeeming all Series 2013 Bonds to which clause (a) applies) shall select such Tendered Bonds for redemption prior to any Series 2013 Bonds of such Series, other than Pledged Bonds or Borrower Bonds.

Any Series 2013 Bond which is to be redeemed only in part shall be surrendered to the Bond Trustee (a) for payment of the redemption price (including accrued interest thereon to the redemption date) of the portion thereof called for redemption and (b) for exchange for Series 2013 Bonds in any Authorized Denomination or denominations in aggregate principal amount equal to the unredeemed portion of such Series 2013 Bond, without charge therefor.

Notwithstanding the foregoing, in the event that the depository for the Series 2013 Bonds is DTC, the Bond Trustee will follow the procedure for redemption, and selection of Series 2013 Bonds for redemption, prescribed by DTC.

Purchase of Series 2013 Bonds in Lieu of Redemption. In lieu of redeeming Series 2013 Bonds, the Bond Trustee may, at the request of the Alliance, use Eligible Moneys otherwise available under the Bond Indenture for redemption of Series 2013 Bonds to purchase Series 2013 Bonds identified by the Alliance in the open market for cancellation at a price specified by the Alliance not exceeding the redemption price then applicable under the Bond Indenture. In the case of any extraordinary redemption or any purchase and cancellation of the Series 2013 Bonds, the Alliance shall receive credit against its required deposits to the Bond Sinking Fund with respect to Series 2013 Bonds of the Series and maturity redeemed or purchased in such order as the Alliance elects prior to such extraordinary redemption or purchase and cancellation or, if no election is made, in the inverse order thereof.

Tender and Purchase of Series 2013 Bonds

Purchase of Series 2013 Bonds at Option of Holder. While the Weekly Rate Periods are in effect, the Bond Trustee, from funds available to it under the Bond Indentures, as Tender Agent and acting on behalf of the Alliance and for the benefit of the Bondholders, shall purchase any Series 2013 Bond (other than Pledged Bonds and Borrower Bonds), in whole or in part in Authorized Denominations upon the demand of the holder thereof at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the date of purchase, for the account of the Alliance, but only upon (a) delivery to the Bond Trustee and the Remarketing Agent at their respective principal offices (St. Louis, Missouri for the Bond Trustee) of a written notice, or at the option of the Bond Trustee or the Remarketing Agent (with respect to their respective notices), telephonic notice confirmed in writing, from the Holder of such Series 2013 Bond (an "Optional Tender Notice") which shall state (1) the principal amount or portions of such Series 2013 Bond being tendered, the number of the Series 2013 Bond being tendered and the name of the Holder thereof and (2) the date such Series 2013 Bond or portion thereof shall be purchased pursuant to the Bond Indenture (the "Optional Tender Date"), which date shall be a Business Day not sooner than 3:00 p.m., New York City time on the Business Day that is five Business Days after the date of receipt of such Optional Tender Notice by the Remarketing Agent and the Bond Trustee and (b) delivery of such Series 2013 Bond (with all necessary endorsements) to the Bond Trustee, at its office in East Syracuse, New York, at or prior to 10:00 a.m., New York City time, on the first Business Day prior to the date of purchase specified in the aforesaid notice; provided, however, that payment of the purchase price of such Series 2013 Bonds shall be made only if the Series 2013 Bonds so delivered to the Bond Trustee, as Tender Agent, shall conform in all respects to the description thereof in the aforesaid notice. Payment of such purchase price shall be made by check unless the Bondholder's Optional Tender Notice contains instructions to the Bond Trustee to wire such purchase price to a particular account. If the date that a Series 2013 Bond is to be purchased is after a Record Date but before the next succeeding Interest Payment Date, the owner of such Series 2013 Bond shall also be required to deliver to the Bond Trustee a due bill instructing that the interest due on the next succeeding Interest Payment Date be paid to the person who purchases such Series 2013 Bond on the purchase date.

On the Optional Tender Date, the Bond Trustee, as Tender Agent, shall purchase the Series 2013 Bond or portion thereof identified in such Optional Tender Notice from the Holder thereof for the account of the Alliance, at a purchase price equal to the principal amount or portion thereof being tendered plus accrued interest, but only from funds provided by the Alliance, including moneys drawn under the Letter of Credit.

Any Series 2013 Bonds which are not tendered on an Optional Tender Date pursuant to an Optional Tender Notice (the "Untendered Bonds"), for which there has been irrevocably deposited in trust with the Bond Trustee an amount sufficient to pay the purchase price thereof, shall be deemed to have been tendered for purchase and purchased as described herein. Holders of Untendered Bonds shall not be entitled to any payment (including any interest to accrue subsequent to the Optional Tender Date) other than the purchase price for such Untendered Bonds, and the Holders of such Untendered Bonds shall no longer be entitled to the benefits of the Bond Indenture, except for the purpose of payment of the purchase price thereof. Replacement Bonds shall be issued in place of such Untendered Bonds and after the issuance of such Replacement Bonds, such Untendered Bonds shall be deemed to have been purchased and shall no longer be Outstanding under the Bond Indenture.

Mandatory Purchase Upon Conversion Date. The Series 2013 Bonds are required to be tendered for purchase on each Conversion Date or any Proposed Conversion Date. Upon receipt of notice from the Alliance establishing the Proposed Conversion Date and certain other documentation required by the Bond Indenture, the Bond Trustee shall give Notice by Mail to the Bondholders at least 30 days before the Proposed Conversion Date that the Proposed Conversion Date is a Mandatory Tender Date. Such notice shall state (a) that the interest rate on the Series 2013 Bonds will be converted to a Fixed Rate; (b) the Conversion Date; (c) the date by which (1) the Preliminary Fixed Rate that is required to be determined pursuant to the Bond Indenture is to be determined and (2) the Bondholders may contact the Bond Trustee (and the name and telephone number of the person whom the Bondholders may contact) to obtain the Preliminary Fixed Rate; (d) the date by which (1) the Remarketing Agent is required to determine the Fixed Rate, (2) the Bondholders may contact the Bond Trustee (and the name and telephone number of the person whom the Bondholders may contact) to obtain the Fixed Rate, and (3) the Bond Trustee will notify upon request the Bondholders of the Fixed Rate; (e) that subsequent to the conversion to a Fixed Rate (1) any ratings of the Rating Agency or Agencies then rating the Series 2013 Bonds may be withdrawn or changed (if such is the case) and (2) the Bondholders will no longer have the right to tender their Series 2013 Bonds to the Bond Trustee for purchase under the Bond Indenture; (f) the last date on which the Bondholders' right to tender Series 2013 Bonds may be exercised; (g) that the Series 2013 Bonds will not be entitled to the benefit of the Letter of Credit or a Substitute Letter of Credit after the Conversion Date, if such is the case; (h) that there will be a failure of conversion (1) if the Fixed Rate is less than the Preliminary Fixed Rate, (2) if the Opinion of Bond Counsel required in connection with such a conversion is withdrawn prior to the Conversion Date, (3) if the Remarketing Agent fails to determine the Preliminary Fixed Rate or Fixed Rate or (4) if the Alliance revokes its request to convert the interest rate on the Series 2013 Bonds to a Fixed Rate; (i) that such failure of conversion shall result in the Series 2013 Bonds bearing interest at a Weekly Rate; (j) the Termination Date of the Letter of Credit; and (k) that, on the Proposed Conversion Date, the Bondholder shall have no further rights under such Series 2013 Bond or Bonds except to receive the principal of the Series 2013 Bond or Bonds upon presentation and surrender of such Series 2013 Bond or Bonds to the Bond Trustee.

On the Proposed Conversion Date, whether or not a Failed Conversion as described below has occurred, the Bond Trustee shall purchase all outstanding Series 2013 Bonds (except Pledged Bonds and Borrower Bonds) from the Holders thereof, who shall also have delivered such Series 2013 Bonds to the Bond Trustee, all as above described.

If (i) the Fixed Rate as determined by the Remarketing Agent is less than the Preliminary Fixed Rate, (ii) the Remarketing Agent fails to determine the Preliminary Fixed Rate or Fixed Rate, (iii) the Opinion of Bond Counsel required with respect to the conversion to the Fixed Rate is withdrawn prior to the Conversion Date or, (iv) the Alliance revokes its request to convert the interest rate on the Series 2013 Bonds to a Fixed Rate, then a failed conversion shall be deemed to have occurred (a "Failed Conversion"). In the event of a Failed Conversion, the interest rate on the Series 2013 Bonds will be the Weekly Rate, and the Weekly Rate Periods shall be in effect. If the Weekly Rate Periods were not in effect prior to the Proposed Conversion Date, the Proposed Conversion Date shall be deemed to be an Adjustment Date for a Weekly Rate Period beginning on such date.

Mandatory Purchase Upon Conversion to Medium-Term Rate Periods. The Series 2013 Bonds are required to be tendered for purchase on the first day of each period at which the Series 2013 Bonds bear interest at the Medium-Term Rate, each such date being an Adjustment Date for the Medium-Term Rate Periods. The Bond Trustee shall give Notice by Mail to the Bondholders, the Remarketing Agent, the Issuer and the Bank at least 30 days before each Adjustment Date for the Medium-Term Rate Periods that such date is a Mandatory Tender Date. Such notice shall state (a) the Mandatory Tender Date; (b) the date on which the Remarketing Agent is required to determine the length of the Medium-Term Rate Period that begins on such Date; (c) the date by which the Remarketing Agent is required to determine the interest rate for such Medium-Term Rate Period; (d) that the Bondholders may contact the Bond Trustee (and the name and telephone number of the person whom the Bondholders may contact) to obtain the length of the Medium-Term Rate Period and the interest rate for such Medium-Term Rate Period on or after the date of its determination; (e) the Interest Payment Date and Record Date for such Medium-Term Rate Period; (f) that during the Medium-Term Rate Period, the Bondholders will no longer have the right to tender their Series 2013 Bonds to the Bond Trustee for purchase under the Bond Indenture and the last day on which the Bondholders' right to tender Series 2013 Bonds may be exercised; (g) the rating of the Series 2013 Bonds by each Rating Agency, if the Series 2013 Bonds are to be rated, after the Mandatory Tender Date; and (h) that, on such Mandatory Tender Date, the Bondholder shall have no further rights under such Series 2013 Bond or Bonds except to receive the principal of the Series 2013 Bond or Bonds upon presentation and surrender of such Series 2013 Bond or Bonds to the Bond Trustee.

Mandatory Purchase Upon Substitution Tender Date. The Series 2013 Bonds of a Series are required to be tendered for purchase on the fifth Business Day prior to the effective date of any Substitute Letter of Credit (the "Substitution Tender Date") for such Series. The Bond Trustee shall give Notice by Mail to the Bondholders, the Remarketing Agent, the Issuer, the Alliance and the Bank at least 30 days before the Substitution Tender Date that such date will be a Mandatory Tender Date. Such notice shall state: (i) the Substitution Tender Date; (ii) the identity of the bank that is issuing the Substitute Letter of Credit; and (iii) that, on such Mandatory Tender Date, interest shall cease to accrue with respect to such Bondholder's Series 2013 Bond or Bonds on such date and the Bondholder shall have no further rights under such Series 2013 Bond or Bonds except to receive the principal of the Series 2013 Bond or Bonds upon presentation and surrender of such Series 2013 Bond or Bonds to the Bond Trustee.

Mandatory Purchase on Termination of Letter of Credit. The Series 2013 Bonds of each Series are subject to mandatory tender for purchase in whole on the second Business Day prior to the Termination Date of the Letter of Credit securing such Series.

No Purchase After Event of Default. Anything in the Bond Indentures to the contrary notwithstanding, there shall be no purchases of Series 2013 Bonds pursuant to such Bond Indenture if there shall have occurred and be continuing an Event of Default of which the Bond Trustee has knowledge that immediately requires the acceleration of the Series 2013 Bonds under such Bond Indenture.

Defeasance

If the Issuer deposits with the Bond Trustee funds, evidenced by moneys or Defeasance Investments (as defined in Appendix C) the principal of and interest on which, when due, will be sufficient to pay the principal or redemption price of any Series of Series 2013 Bonds, by call for redemption or otherwise, together with interest accrued to the due date or the redemption date, as appropriate, in accordance with the terms of the Bond Indentures, such Series of Series 2013 Bonds shall no longer be deemed to be Outstanding under the applicable Bond Indenture. Interest on such Series of Series 2013 Bonds, as appropriate, will cease to accrue on the due date or the redemption date, as appropriate, and from and after the date of such deposit of funds with the Bond Trustee the holders of such Series of Series 2013 Bonds will be restricted to the funds so deposited as provided in the Bond Indentures.

PLAN OF FINANCE

Application of Proceeds

The proceeds of the Series 2013A Bonds will be loaned by the Issuer to the Alliance pursuant to the 2013A Loan Agreement and used by the Alliance (1) to finance or refinance certain capital improvements and equipment acquisitions at facilities owned by the Alliance and its affiliates and (2) to pay certain expenses incurred in connection with the issuance of the Series 2013A Bonds. The proceeds of the Series 2013B Bonds will be loaned by the Issuer to the Alliance pursuant to the 2013B Loan Agreement and used by the Alliance (1) to refund $97,915,000 principal amount of the Issuer's Hospital Revenue Bonds (Mountain States Health Alliance), Series 2007B-2 (the "Series 2007B-2 Bonds"), and (2) to pay certain expenses incurred in connection with the issuance of the Series 2013B Bonds.

The Alliance expects that, contemporaneously with the issuance of the Series 2013 Bonds and the refunding of the Series 2007B-2 Bonds, the Alliance will cause the refunding of (1) the Issuer's Hospital Revenue Bonds, Series 2008A, and Hospital Revenue Bonds, Series 2012B, (2) the Industrial Development Authority of Russell County's Hospital Revenue Bonds, Series 2008B, (3) the Industrial Development Authority of Smyth County's Hospital Revenue Bonds, Series 2011C, and Hospital Revenue Bonds, Series 2011D, and (4) the Industrial Development Authority of Wise County's Hospital Revenue Bonds, Series 2012C, through private placements with financial institutions, as reflected in the table in "Current and Pro Forma Long-Term Debt," below.

Estimated Sources and Uses of Funds

The sources and uses of the proceeds of the Series 2013 Bonds are set forth below.

Sources of Funds	2013A	2013B
Principal Amount	$16,235,000	$99,680,000
TOTAL	$16,235,000	$99,680,000
Uses of Funds		
Project Costs	$15,945,000	-
Refund Series 2007B-2 Bonds	-	$97,915,000
Costs of Issuance	290,000	1,765,000
TOTAL	$16,235,000	$99,680,000

Current and Pro Forma Long-Term Debt

The left column of the following table reflects the total outstanding debt of the Alliance under the Master Indenture as of July 1, 2013, prior to the issuance of the Series 2013 Bonds. The right column of the following table shows the outstanding debt of the Alliance under the Master Indenture as of July 1, 2013, but adjusted to show the effect of the issuance of the Series 2013 Bonds. The table below and the information in the immediately following section do not include the indebtedness of certain entities controlled by the Alliance that are not Obligated Issuers.

Outstanding Long-Term Debt (at July 1, 2013) Description	Principal Amount	Pro Forma Long-Term Debt (at July 1, 2013) Description	Principal Amount
Debt:		***Debt:***	
The Health and Educational Facilities Board of the City of Johnson City, Tennessee, Hospital First Mortgage Revenue Refunding Bonds, Series 2000A	$35,100,246 (1)	The Health and Educational Facilities Board of the City of Johnson City, Tennessee, Hospital First Mortgage Revenue Refunding Bonds, Series 2000A	$35,100,246 (1)
The Health and Educational Facilities Board of the City of Johnson City, Tennessee, Hospital First Mortgage Revenue Bonds, Series 2000C	30,750,000	The Health and Educational Facilities Board of the City of Johnson City, Tennessee, Hospital First Mortgage Revenue Bonds, Series 2000C	30,750,000
Mountain States Health Alliance Taxable Note, Series 2000D	13,245,000	Mountain States Health Alliance Taxable Note, Series 2000D	13,245,000
The Health and Educational Facilities Board of the City of Johnson City, Tennessee, Hospital First Mortgage Revenue Bonds, Series 2001A	20,400,000	The Health and Educational Facilities Board of the City of Johnson City, Tennessee, Hospital First Mortgage Revenue Bonds, Series 2001A	20,400,000
The Health and Educational Facilities Board of the City of Johnson City, Tennessee, Hospital First Mortgage Revenue Bonds, Series 2006A	167,730,000	The Health and Educational Facilities Board of the City of Johnson City, Tennessee, Hospital First Mortgage Revenue Bonds, Series 2006A	167,730,000
The Health and Educational Facilities Board of the City of Johnson City, Tennessee, Hospital Revenue Bonds, Series 2007B-1	19,515,000	The Health and Educational Facilities Board of the City of Johnson City, Tennessee, Hospital Revenue Bonds, Series 2007B-1	19,515,000
The Health and Educational Facilities Board of the City of Johnson City, Tennessee, Hospital Revenue Bonds, Series 2007B-2	97,915,000	The Health and Educational Facilities Board of the City of Johnson City, Tennessee, Hospital Revenue Bonds, Series 2009A	5,415,000
The Health and Educational Facilities Board of the City of Johnson City, Tennessee, Hospital Revenue Bonds, Series 2008A	13,245,000	Industrial Development Authority of Smyth County Hospital Revenue Bonds, Series 2009B	5,400,000
Industrial Development Authority of Russell County Hospital Revenue Bonds, Series 2008B	50,970,000	Industrial Development Authority of Washington County, Virginia, Hospital Revenue Bonds, Series 2009C	111,265,000
The Health and Educational Facilities Board of the City of Johnson City, Tennessee, Hospital Revenue Bonds, Series 2009A	5,415,000	The Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds, Series 2010A	154,240,000
Industrial Development Authority of Smyth County Hospital Revenue Bonds, Series 2009B	5,400,000	Industrial Development Authority of Smyth County Hospital Revenue Bonds, Series 2010B	25,230,000
Industrial Development Authority of Washington County, Virginia, Hospital Revenue Bonds, Series 2009C	111,265,000	The Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds, Series 2011A	56,945,000
The Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds, Series 2010A	154,240,000	The Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds, Series 2011B	19,985,000
Industrial Development Authority of Smyth County Hospital Revenue Bonds, Series 2010B	25,230,000	Mountain States Health Alliance Taxable Bonds, Series 2011E[1]	6,445,000
The Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds, Series 2011A	56,945,000	The Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds, Series 2012A	55,000,000
The Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds, Series 2011B	19,985,000	The Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds, Series 2013A	16,235,000
Industrial Development Authority of Smyth County Hospital Revenue Bonds, Series 2011C	48,220,000	The Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds, Series 2013B	99,680,000
Industrial Development Authority of Smyth County Hospital Revenue Bonds, Series 2011D	60,655,000	The Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds, Series 2013C	13,350,000
Mountain States Health Alliance Taxable Bonds, Series 2011E	15,945,000	Industrial Development Authority of Smyth County Hospital Revenue Bonds, Series 2013D	61,180,000
The Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds, Series 2012A	55,000,000	Industrial Development Authority of Smyth County Hospital Revenue Bonds, Series 2013E	9,880,000
The Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds, Series 2012B	28,095,000	Industrial Development Authority of Smyth County Hospital Revenue Bonds, Series 2013F	51,430,000
Industrial Development Authority of Wise County Hospital Revenue Bonds, Series 2012C	9,785,000	The Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds, Series 2013G	28,310,000
		Industrial Development Authority of Smyth County Hospital Revenue Bonds, Series 2013H	48,600,000
Total Long-Term Debt	**$1,045,050,246**	**Total Long-Term Debt**	**$1,055,330,246**
Less: 2000 Reserve Fund	$7,000,000	Less: 2000 Reserve Fund	$7,000,000
NET TOTAL LONG-TERM DEBT	**$1,038,050,246**	**NET TOTAL LONG-TERM DEBT**	**$1,048,330,246**

[1] The Alliance expects to pay off its Taxable Bonds, Series 2011E, by December 31, 2013.

Estimated Annual Debt Service Requirements

The following table reflects the estimated outstanding debt service obligations of the Alliance on all long term indebtedness secured under the Master Indenture following the issuance of the Series 2013 Bonds. The estimated annual debt service with respect to outstanding indebtedness assumes a 3.0% interest rate on all variable rate bonds, and does not take into account any interest rate hedges that may exist or may be executed in the future.

Annual Debt Service Requirements

Year Ending June 30	2013A Principal	2013B Principal	2013C Principal	2013D Principal	2013E Principal	2013F Principal	2013G Principal	2013H Principal	2013A-H Interest	Estimated Annual Debt Service on Other Outstanding Indebtedness	Estimated Total Annual Long-Term Debt Service Requirements
2014	-	-	-	-	-	-	-	-	$ 5,340,806	$ 20,897,931	$ 26,238,738
2015	-	-	-	-	-	$ 250,000	-	$ 630,000	9,846,750	58,267,769	68,994,519
2016	-	-	-	-	-	250,000	-	470,000	9,822,750	58,448,188	68,990,938
2017	-	-	-	-	-	260,000	-	540,000	9,799,950	58,394,294	68,994,244
2018	-	-	-	$ 95,000	-	1,120,000	-	1,430,000	9,748,275	56,240,800	68,634,075
2019	-	-	-	2,900,000	$ 370,000	1,595,000	-	1,510,000	9,612,975	52,645,063	68,633,038
2020	-	-	$ 25,000	3,345,000	370,000	2,165,000	-	6,170,000	9,336,225	47,222,266	68,633,491
2021	-	-	25,000	3,855,000	370,000	2,590,000	-	5,895,000	8,964,075	46,933,231	68,632,306
2022	-	-	30,000	3,730,000	370,000	2,745,000	-	3,065,000	8,623,950	50,068,309	68,632,259
2023	-	-	30,000	3,955,000	370,000	3,645,000	-	3,115,000	8,308,125	49,209,241	68,632,366
2024	-	-	-	4,305,000	370,000	4,005,000	-	3,245,000	7,962,525	48,746,334	68,633,859
2025	-	-	-	6,420,000	370,000	2,880,000	-	2,890,000	7,595,250	48,474,250	68,629,500
2026	-	-	-	7,395,000	370,000	2,875,000	-	3,170,000	7,199,700	47,621,306	68,631,006
2027	-	-	-	955,000	370,000	2,060,000	-	-	6,941,775	58,303,506	68,630,281
2028	-	-	-	995,000	-	2,525,000	-	-	6,838,200	58,272,669	68,630,869
2029	-	-	-	2,025,000	-	1,990,000	-	-	6,725,175	57,891,444	68,631,619
2030	-	-	-	3,685,000	-	-	-	-	6,609,675	57,468,169	67,762,844
2031	-	-	-	3,920,000	-	-	-	490,000	6,488,250	56,867,031	67,765,281
2032	-	-	-	13,600,000	-	-	$ 1,450,000	9,610,000	6,052,200	37,054,644	67,766,844
2033	-	-	-	-	-	-	2,970,000	6,370,000	5,542,200	52,881,838	67,764,038
2034	-	-	-	-	-	-	10,330,000	-	5,247,150	52,188,094	67,765,244
2035	-	-	-	-	-	-	-	-	5,092,200	65,065,925	70,158,125
2036	-	-	-	-	-	-	-	-	5,092,200	64,959,275	70,051,475
2037	-	-	-	-	-	-	-	-	5,092,200	64,829,500	69,921,700
2038	-	-	-	-	-	-	-	-	5,092,200	60,813,413	65,905,613
2039	-	-	13,240,000	-	-	-	-	-	4,893,600	43,813,306	61,946,906
2040	-	$16,715,000	-	-	1,330,000	6,015,000	2,495,000	-	4,296,675	15,166,625	46,018,300
2041	$ 1,260,000	15,990,000	-	-	1,375,000	6,140,000	2,595,000	-	3,487,950	15,168,500	46,016,450
2042	1,650,000	16,070,000	-	-	1,740,000	5,955,000	2,780,000	-	2,654,625	15,166,875	46,016,500
2043	1,300,000	17,590,000	-	-	2,105,000	2,365,000	5,690,000	-	1,795,950	15,170,000	46,015,950
2044	12,025,000	33,315,000	-	-	-	-	-	-	680,100	-	46,020,100
	$16,235,000	**$99,680,000**	**$13,350,000**	**$61,180,000**	**$9,880,000**	**$51,430,000**	**$28,310,000**	**$48,600,000**	**$200,783,681**	**$1,434,249,794**	**$1,963,698,475**

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS

Special, Limited Obligations of the Issuer

The Series 2013 Bonds will be issued under and secured by the Bond Indentures and are payable from moneys received by the Bond Trustee from the Alliance, as further described in "Trust Estate" below.

Trust Estate

The Series 2013 Bonds of each Series are payable from the respective Trust Estates under the Bond Indentures, which consist of (i) payments or prepayments to be made on the Series 2013 Obligations, and any additional obligations of the Alliance to the Issuer to the extent such additional obligations may be pledged under the Bond Indentures in the future; (ii) other payments under the Loan Agreements (other than fees and expenses payable to the Issuer and the Issuer's rights to notices and indemnification in certain circumstances); (iii) all moneys and investments held under the applicable Bond Indenture as security for the Series 2013 Bonds (excluding funds held in the Rebate Fund established under the applicable Bond Indenture); and (iv) in certain circumstances, proceeds from certain insurance and condemnation awards.

Pursuant to the Series 2013 Obligations, the Alliance is required to make payments to the applicable Bond Trustee for deposit into the Debt Service Fund established under the applicable Bond Indenture, at the times and in amounts sufficient to pay the principal of and interest on the Series 2013 Bonds.

Payment of principal and interest on the Series 2013 Bonds will not be secured by any encumbrance, mortgage or other pledge of any property of the Issuer. **The Series 2013 Bonds will not constitute a debt or indebtedness of any state or any political subdivision or agency thereof, including the Issuer, within the meaning of any constitutional or statutory provision or limitation. The Issuer does not have taxing power.**

Master Indenture Covenants

In the Master Indenture, the Alliance has made certain covenants, on behalf of itself and the Obligated Group (as defined in the Master Indenture), regarding maintenance of fees and rates, and any future Obligated Issuer would be required to make similar covenants upon joining the Obligated Group. These covenants provide, among other matters, that each Obligated Issuer (including the Alliance) will continue to impose such fees as are included within the Gross Revenues, operate on a revenue producing basis, and charge such fees and rates for its facilities and services and exercise such skill and diligence as to provide income from its property together with other available funds sufficient to pay promptly all payments of principal and interest on its indebtedness secured by the Master Indenture, all expenses of operation, maintenance, and repair of its property subject to the Master Indenture, and all other payments required to be made by it under the Master Indenture to the extent permitted by law. Each Obligated Issuer (including the Alliance) also covenants to use its best efforts to maintain in each Fiscal Year a ratio of total Income Available for Debt Service to Maximum Annual Debt Service for all Obligated Issuers at least equal to 1.30 to 1. Each Obligated Issuer (including the Alliance) further covenants that it will from time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of the Master Indenture described in this paragraph. See Appendix C - "SUMMARY OF THE FINANCING DOCUMENTS - SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Rates and Charges."

The Master Indenture defines "Income Available for Debt Service" of the Alliance or other Obligated Issuer to mean, with respect to any period of time, the excess of revenues over expenses, or, in the case of for-profit entities, net income after tax, as determined in accordance with generally accepted accounting principles, to which shall be added, in either case, (i) depreciation, (ii) amortization, (iii) interest expense on Long-Term Indebtedness (as defined in the Master Indenture) and (iv) to the extent not already included, contributions and donations and from which shall be excluded any extraordinary items, any impairment losses, any gain or loss resulting from either the extinguishment of indebtedness or the sale, exchange or other disposition of assets not made in the ordinary course of business, provided, however, that (a) no determination of Income Available for Debt Service will take into account any gains or losses resulting from the periodic valuation of investments or Hedge Agreements that do not involve the sale, transfer or other disposition of any such investment or Hedge Agreement or the termination of any Hedge Agreement and (b) a person may include in its net income such person's share of the net income of any person controlled by such person or in whom such person has a legal interest. The Master Indenture contains provisions relating to the calculation of Maximum Annual Debt Service that provides for reallocation of amounts due on balloon indebtedness and assumptions as to the interest rates on variable rate indebtedness and payment of guaranties. For financial information of the Alliance, see Appendix A and the Alliance's audited consolidated financial statements for the fiscal years ended June 30, 2012 and June 30, 2011, included as Appendix B. For a more complete description of the covenants under the Master Indenture, see "SUMMARY OF THE FINANCING DOCUMENTS - SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Rates and Charges" in Appendix C.

Only Obligated Issuers are obligated to make payments on the Series 2013 Bonds and to abide by the covenants under the Master Indenture. The audited and unaudited financial statements included as Appendices B and C reflect the assets and operations of entities that are not Obligated Issuers. See Appendix A – "CONDENSED SUMMARY OF REVENUE AND EXPENSES; FINANCIAL STATEMENTS."

Amendment of Master Indenture

By purchasing the Series 2013 Bonds, the initial holders thereof will consent to an amendment to the definition of "Debt Service Requirement" in the Master Indenture and an amendment to the requirements applicable to interest rate swaps. Such amendments will not become effective immediately and will become effective only upon receipt of the consent of the required percentage of bondholders and credit enhancers under the terms of the Master Indenture.

Both the existing definition and the proposed definition are set forth in Appendix C, "SUMMARY OF THE FINANCING DOCUMENTS – DEFINITIONS OF CERTAIN TERMS." The definition of "Debt Service Requirement" is utilized in calculations under both the additional debt test and the rate covenant under the Master Indenture, and such amendment may in certain circumstances increase or decrease the amount of the Debt Service Requirement in any required calculation. See "Additional Long-Term Indebtedness" and "Rates and Charges" in "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE" in Appendix C.

Both the existing requirements and the proposed new requirements for interest rate swaps are set forth in Appendix C.

Pledged Assets; Mortgage

Currently, the Series 2013 Bonds are secured by the applicable Trust Estate, including the assignment of the applicable Series 2013 Obligation. As security for its Master Obligations, the Alliance has granted to the Master Trustee a security interest in its Pledged Assets, subject to Permitted Liens. The Pledged Assets consist of: Receivables, Inventory, Equipment, General Intangibles, Contracts and Contract Rights, Government Approvals, Fixtures and other personal property, goods, instruments, chattel paper, documents, credits, claims, demands and assets. For a definition of these terms see Appendix C - "SUMMARY OF THE FINANCING DOCUMENTS - DEFINITIONS OF CERTAIN TERMS." Financing statements will be filed in the appropriate records of the Office of the Tennessee Secretary of State to perfect the security interest in Pledged Assets and Equipment to the extent possible by such filing. Continuation statements meeting the requirements of the Uniform Commercial Code of Tennessee (the "UCC") must be filed every five years to continue the perfection of such security interest. The security interest in the Pledged Assets and Equipment is subject to Permitted Liens that exist prior to or may be created subsequent to the time the security interest granted by the Master Indenture attaches.

The security interest in any item of inventory will be inferior to the interest of a buyer in the ordinary course of business and will be inferior to a purchase money security interest, as defined in the UCC, perfected in connection with the sale to an Obligated Issuer of such item. The lien on certain other Pledged Assets may not be enforceable against third parties unless such other Pledged Assets are transferred to the Master Trustee (which transfer Obligated Issuers are not required by the Master Indenture to make prior to an Event of Default thereunder and which transfer may be set aside if it occurs within 90 days of the filing of a petition in bankruptcy) and is subject to exception under the UCC. The federal government may in the future proscribe or restrict the assignment of rights arising out of Medicare, Medicaid or other federal programs.

As a condition to becoming a Member of the Obligated Group, an entity must grant to the Master Trustee a security interest in its Pledged Assets.

Pursuant to the Master Indenture, the Obligated Issuers agree that they will not create or suffer to be created or exist any Lien other than Permitted Liens, as defined under "SUMMARY OF THE FINANCING DOCUMENTS - DEFINITIONS OF CERTAIN TERMS" in Appendix C, upon any of their facilities now owned or hereafter acquired.

The Series 2013 Obligations also are secured by a mortgage on the Johnson City Medical Center located in Johnson City, Tennessee, and the Sycamore Shoals Hospital facility in Elizabethton, Tennessee (together, the "Mortgaged Property"). Such mortgage secures all Master Obligations issued under the Master Indenture.

Subject to certain conditions, in case of the failure of the Obligated Issuers to make any payment on the Master Obligations when due or upon any other event of default under the Master Indenture, the Master Trustee may, after such notice as is required by the Master Indenture and the applicable security instruments, take possession of Mortgaged Property or, upon such public notice as required by Tennessee statute, sell the Mortgaged Property, and apply the proceeds to payment of principal of and interest on the Master Obligations (and thereby on the Series 2013 Bonds) on a parity basis with any other Master Obligation.

Additional Indebtedness

The Alliance has certain debt outstanding under the Master Indenture. The Master Indenture permits the Alliance and any other members of the Obligated Group to incur Additional Indebtedness (including Guaranties), all upon the terms and subject to the conditions specified therein. Such Additional Indebtedness may, but need not, be evidenced or secured by a Master Obligation. Additional Indebtedness may be issued to the Issuer or to persons other than the Issuer.

The reimbursement obligations of the Alliance with respect to the Letters of Credit will also be secured under the Master Indenture.

Except as noted above, under the Master Indenture, the Alliance and each other Obligated Issuer agrees that it will not incur other Additional Indebtedness unless it can demonstrate that certain coverage ratios have been and will be met between debt service obligations and Income Available for Debt Service. Under the Master Indenture, Additional Indebtedness may be Long-Term Indebtedness or Short-Term Indebtedness. The Master Indenture allows any future Obligated Issuer to incur Additional Indebtedness under the Master Indenture as a Master Obligation constituting the joint and several obligation of the Alliance and all other Obligated Issuers and subject to cross-guarantees of all Obligated Issuers, including the Alliance. Except to the extent entitled to the benefits of additional security as permitted by the Master Indenture and except for Subordinated Indebtedness, all Master Obligations will be equally and ratably secured by the Master Indenture. See Appendix C - "SUMMARY OF THE FINANCING DOCUMENTS - SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE."

Subject to certain conditions set forth in the Master Indenture, Additional Indebtedness incurred by any Member of the Obligated Group may be secured by security which does not extend to any other Indebtedness. Such security may include Liens on the Property (including health care facilities) of the Members of the Obligated Group, letters or lines of credit or insurance, and could also consist of Liens on cash or securities deposited or held in any depreciation reserve, debt service or interest reserve, debt service or similar fund established pursuant to the terms of any Supplemental Master Indenture, Related Bond Indenture or Related Loan Document. The Master Indenture provides that Supplemental Master Indentures pursuant to which one or more series of Master Obligations entitled to additional security are issued may provide for such amendments to provisions of the Master Indenture, including the provisions thereof relating to the exercise of remedies upon the occurrence of an event of default, as are necessary to provide for such security and to permit realization upon such security solely for the benefit of the Master Obligation secured thereby.

Defeasance

If the interest on, and the principal or redemption price (as the case may be) of a Series of the Series 2013 Bonds have been paid, or the required amount of money and/or Defeasance Investment (see "SUMMARY OF THE FINANCING DOCUMENTS - DEFINITIONS OF CERTAIN TERMS" in Appendix C) have been deposited with the applicable Bond Trustee to provide sufficient amounts to pay the principal of, and premium, if any, and interest due and to become due on such Series of Series 2013 Bonds on or prior to the redemption date or maturity date thereof, such Series of Series 2013 Bonds shall no longer be deemed outstanding under the applicable Bond Indenture and will no longer be secured thereby. If all Series 2013 Bonds of a Series have been so provided for, the applicable Bond Trustee shall cancel and discharge the applicable Bond Indenture. See "SUMMARY OF THE FINANCING DOCUMENTS - SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURES - Defeasance" in Appendix C.

Bankruptcy

The lien on the Pledged Assets and Equipment given for the benefit of holders of Master Obligations (and thereby the Series 2013 Bonds) are generally superior to the claims of other creditors (subject to the limitations set forth above). However, bankruptcy and similar proceedings and usual equity principles may affect the enforcement of rights to such security. If such security is inadequate for payment in full of the Bonds, bankruptcy proceedings and usual equity principles may also limit any attempt by the Master Trustee to seek payment from other property of the Alliance or future Obligated Issuers. In particular, federal bankruptcy law permits adoption of a reorganization plan even though it has not been accepted by the holders of a majority in aggregate principal amount of the Bonds if the holders are provided with the benefit of their original lien or the "indubitable equivalent." In addition, if the bankruptcy court concludes that the holders have "adequate protection," it may (1) substitute other security for the security subject to the lien of the holders and (2) subordinate the lien of the holders to claims by entities or persons supplying post-petition financing to the Alliance after bankruptcy. Furthermore, the reasonable and necessary costs and expenses of preserving or disposing of the Pledged Assets and Equipment in a bankruptcy may, in certain circumstances, reduce the value of the lien on the Pledged Assets and Equipment to the extent such costs and expenses benefit the Master Trustee (and holders). In the event of the bankruptcy of the Alliance, the amount realized by the holders might depend on the bankruptcy court's interpretation of "indubitable equivalent" and "adequate protection" under the then existing circumstances, which may result in a reduction in the security for or proceeds available to the holders.

THE LETTERS OF CREDIT

Terms of the Letters of Credit

The timely payment of the principal of and interest on the Series 2013 Bonds and the purchase price of each Series of the Series 2013 Bonds will be secured by a corresponding irrevocable transferable direct-pay letter of credit (each, a "Letter of Credit") issued by the Bank in a stated amount equal to the aggregate principal amount of the respective Series 2013 Bonds outstanding at any time plus 37 days' interest thereon, calculated at the rate of 12% per annum (the "Maximum Rate"). Each Letter of Credit will be issued pursuant to a Reimbursement Agreement dated as of July 1, 2013 (each a "Reimbursement Agreement" and, together, the "Reimbursement Agreements"), among the Alliance, on its own behalf and as Obligated Group agent on behalf of each of the other Obligated Issuers, and the Bank and any syndicate lenders. The obligations on the part of the Alliance to reimburse the Bank for draws made under each respective Letter of Credit, and to pay to the Bank all other amounts due under the Reimbursement Agreement, will be evidenced by Obligations (as defined in the Master Indenture) issued and secured under the Master Indenture.

Each Letter of Credit will expire on July 30, 2018, unless otherwise terminated or extended. Each Letter of Credit shall expire earlier than such expiration date upon the first to occur of (a) the Business Day following a Conversion Date; (b) the date of receipt by the Bank of notice from the Bond Trustee that a Substitute Letter of Credit, as described below, has been issued in substitution for the Letter of Credit; (c) the date on which the Bank honors the final drawing or drawings available; and (d) the date on which the Bond Trustee certifies that no Series 2013 Bonds of the Series are outstanding. At the request of the Alliance, and with the consent of the Bank and any syndicate lenders, the term of the respective Letter of Credit may be extended by one year. Such consent shall be at the sole discretion of the Bank and any syndicate lenders, subject to earlier termination or extension at the option of the Bank. Pursuant to the Bond Indentures and subject to certain conditions described herein, prior to the expiration of a Letter of Credit or any other Letter of Credit, the Alliance may deliver to the Bond Trustee a substitute Letter of Credit. Each Letter of Credit and any substitute Letter of Credit are herein referred to as a "Letter of Credit;" the Bank and the issuer of any other Letter of Credit are herein referred to as a "Letter of Credit Provider."

In the case of a drawing to pay the principal or the purchase price of the Series 2013 Bonds of a Series, the stated amount of the Letter of Credit will be reduced by the principal amount of such drawing plus a corresponding amount of the interest portion of the Letter of Credit. In the case of a drawing to pay principal of the Series 2013 Bonds of a Series, the stated amount of the Letter of Credit will be reduced to the extent of any such drawing thereunder. Reductions in the Letter of Credit resulting from a drawing to pay the purchase price of Series 2013 Bonds of a Series shall be reinstated upon receipt by the Bond Trustee of remarketing proceeds or other funds sufficient to reimburse the Bank for such drawing. Drawings to pay interest on the Series 2013 Bonds on an Interest Payment Date shall be automatically reinstated in an amount equal to the amount of such drawing following the honoring of such drawing.

Trustee Draws on Letters of Credit

The Bond Indentures provide that, while any Letter of Credit is in effect, the Bond Trustee shall draw moneys under such Letter of Credit in the following circumstances:

(i) on or before 4:00 p.m., New York City time, on the Business Day prior to any date any payment referred to in this paragraph is required to be made under the Bond Indenture, the Bond Trustee shall, without making any prior demand or claim upon the Alliance, make a drawing under and in accordance with the Letter of Credit so as to receive moneys thereunder on the next Business Day in an amount which will be sufficient for the payment in full of (i) accrued interest on the Series 2013 Bonds on any Interest Payment Date, (ii) the principal of and accrued interest on the Series 2013 Bonds upon the Stated Maturity of the Series 2013 Bonds, and (iii) the principal of and accrued interest on the Series 2013 Bonds upon the redemption of the Series 2013 Bonds.

(ii) on or before 11:30 a.m., New York City time, on the Business Day any payment referred to in this paragraph is required to be made under the Bond Indenture, the Bond Trustee shall, without making any prior demand or claim upon the Alliance, make a drawing under and in accordance with the Letter of Credit so as to receive moneys thereunder on such Business Day in an amount which will be sufficient, together with any proceeds of the remarketing of the Series 2013 Bonds by the Remarketing Agent then in the Bond Purchase Fund and available for application to the Series 2013 Bonds, for the payment in full of the purchase price (including, if applicable, accrued interest due in connection with a purchase on a Mandatory Tender Date or an Optional Tender Date, as the case may be) of all Series 2013 Bonds to be purchased under the terms of the Bond Indenture.

(iii) on or before 4:00 p.m., New York City time, on the Business Day prior to the payment date of the Series 2013 Bonds upon acceleration of the Series 2013 Bonds after an event of default under the Bond Indenture, the Bond Trustee shall, without making any prior demand or claim upon the Alliance, make a drawing under and in accordance with the Letter of Credit so as to receive moneys thereunder in an amount which will be sufficient for the payment in full of the principal of and interest due on the Series 2013 Bonds on such payment date.

The Alliance has agreed pursuant to the Reimbursement Agreements to reimburse the Bank for amounts paid under and otherwise owing with respect to the Letters of Credit.

Extensions of Letter of Credit and Substitute Letter of Credit

Pursuant to the Loan Agreement for each Series of Series 2013 Bonds, the Alliance is required to maintain with the Bond Trustee during the Weekly Rate Periods a Letter of Credit in an amount at least equal to the aggregate principal amount of Series 2013 Bonds then Outstanding plus 37 days' interest thereon. Prior to the expiration of a

Letter of Credit, the Alliance shall deliver to the Bond Trustee a Substitute Letter of Credit or cause an extension of such Letter of Credit. The extension of a Letter of Credit may be effected by the Bank's allowance of the Letter of Credit to renew automatically, delivery of an amendment to the Letter of Credit or by the delivery of a new Letter of Credit in the same form as the expiring Letter of Credit with an extended expiration date. The Alliance also may deliver a Substitute Letter of Credit to the Bond Trustee at any time prior to the Conversion Date in the manner described below.

The Series 2013 Bonds shall be subject to mandatory tender for purchase on any Substitution Tender Date. A Substitute Letter of Credit must be an irrevocable letter of credit, having a term of at least one year, issued by a commercial bank organized or doing business in the United States, the terms of which shall in all material respects be the same as the initial Letter of Credit. Pursuant to the Bond Indenture, the Bond Trustee shall accept a Substitute Letter of Credit and surrender the previously held Letter of Credit if the Bond Trustee receives (a) the Substitute Letter of Credit, (b) an Opinion of Counsel to the effect that the Substitute Letter of Credit has been duly authorized, executed and delivered by the issuer thereof and is a valid and binding obligation of the issuer thereof and (c) in the case of the Series 2013A Bonds, an Opinion of Bond Counsel that the delivery of such Substitute Letter of Credit will not adversely affect the exclusion from gross income of interest on such Series 2013A Bonds for federal income tax purposes. Upon the date the Bond Trustee is permitted to draw under such Substitute Letter of Credit, the Bond Trustee shall promptly surrender the previously held Letter of Credit to the issuer thereof for cancellation. At least 40 days prior to the effective date of such substitution, the Alliance is required to give the Bond Trustee notice of such proposed substitution, and at least 30 days prior to the effective date of such substitution the Bond Trustee will mail notice of such proposed substitution to the holders of all Series 2013 Bonds, advising them of the identity of the Bank giving the Substitute Letter of Credit.

THE BANK

For certain information on U.S. Bank National Association, the provider of the Letters of Credit, see Appendix F. Such information has been provided by the Bank and has not been reviewed by the Issuer or the Alliance.

INTEREST RATE SWAPS

The Alliance has various interest rate swaps and related derivatives currently in place, as described in Appendix A. Some of the existing arrangements have been entered into with affiliates of the Underwriter. The Alliance may in the future enter into swap agreements with respect to some or all of its obligations issued under the Master Indenture. See "MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE − Interest Rate Swaps and Derivatives" in Appendix A.

CERTAIN RISK FACTORS

The purchase of the Series 2013 Bonds involves certain risks, a number of which are discussed throughout this Official Statement. Each prospective purchaser of the Series 2013 Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. Certain specific risks are described below.

General

The ability of the Obligated Issuers to make payments on the Series 2013 Bonds is dependent upon the ability of the Obligated Issuers to generate revenue sufficient to cover collective operating expenses and debt service on the Series 2013 Bonds and other indebtedness of the Obligated Issuers. Health care providers, especially hospitals, face increasing economic pressures from both governmental health care programs and private purchasers of health care such as insurance companies and health maintenance organizations (collectively, "third-party payors"). The dependence of hospitals on governmental programs requires hospitals to accept both limitations on payments and regulations and other restrictions and requirements triggered by participation in such programs. Many governmental and private third-party payors have required healthcare providers to accept "capitated" or other fixed payments, which have the effect of shifting significant economic risk to healthcare providers.

Health care, especially at the hospital level, is a highly regulated industry with complicated and frequently changing regulations arising both from payment programs and governmental police power generally. Health care providers are increasingly subject to audits, investigations and litigation that may threaten access to governmental reimbursement programs, require substantial payments, generate adverse publicity, create significant legal and other transaction costs and result in significant civil and criminal penalties. See below "Health Care Revenues." In addition, because the Alliance and a number of its affiliates are tax-exempt charitable organizations under the Internal Revenue Code ("Exempt Organizations"), they are subject to increasing regulation and restrictions that may have adverse effects on their economic performance or threaten their tax-exempt status and the economic benefits derived from it. In particular, such regulations and restrictions may require the facilities of the Alliance or such affiliates to provide health care services for which they do not receive payment. In addition, Congress is likely to consider imposing additional regulations and restrictions on Exempt Organizations.

Future economic and other conditions, including inflation, demand for health care services, the ability of the Alliance and other members of the Obligated Group to provide the services required or requested by patients, physicians' confidence in the Alliance, economic developments in the applicable service areas, employee relations and unionization, competition, the level of rates or charges, increased costs, availability of professional liability insurance, casualty losses, third-party reimbursement and changes in governmental regulation may adversely affect revenues and, consequently, the ability of the Alliance and other members of the Obligated Group to generate revenues sufficient for the payment of the principal of and interest on the Series 2013 Obligations.

Certain more specific factors that could affect the Series 2013 Bonds and the future financial condition of the Alliance and any future members of the Obligated Group are described below. This discussion of risk factors is not intended to be exhaustive.

Discretion of the Board and Management

The Master Indenture does not significantly restrict the ability of the Alliance to enter into transactions that could materially affect the business, organizational structure and control of the Alliance and any future members of the Obligated Group. Such transactions could include, for example, such things as divestitures of Affiliates, substantial new joint ventures, and mergers, consolidations or other forms of affiliations in which control of the Alliance and any future members of the Obligated Group could be materially changed. As a substantial health system, the Alliance regularly considers and analyzes opportunities for such undertakings. The ability of the Alliance to generate revenues sufficient to pay debt service on the Series 2013 Obligations is dependent in large measure on the decisions of the Board of Directors and management of the Alliance with respect to such opportunities.

Voting Control Under Master Indenture

Certain amendments and waivers to the provisions of the Master Indenture may be made with the consent of the owners of 75% of the aggregate principal amount of the Master Obligations then outstanding. Certain other amendments may be made with the consent of the owners of two-thirds (2/3) in aggregate principal amount of Master Obligations related to bonds that are not the beneficiaries of certain municipal bond insurance policies and the consent of the provider of certain municipal bond insurance policies. Such amendments may adversely affect the security of the holders of the Series 2013 Bonds.

For a discussion of what actions may be taken with the consent or direction of a majority percent or more of the holders of outstanding Master Obligations under the Master Indenture, see the discussion under "SUMMARY OF THE FINANCING DOCUMENTS" in Appendix C.

Matters Relating to Enforceability of the Master Indenture

The practical realization of any rights upon any default under the Loan Agreements or under the Master Indenture may depend upon the exercise of various remedies specified in such instruments, as restricted by federal and state laws. The federal bankruptcy laws may adversely affect the ability of the Bond Trustees, the Master Trustee and the owners of the Series 2013 Bonds to enforce their claims granted by the Bond Indentures, the Loan

Agreements or the Master Indenture. The obligation of the Alliance on the Series 2013 Obligations and other Master Obligations will be limited to the same extent as the obligations of debtors typically are affected by bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium or other similar laws affecting the enforcement of creditors' rights and by the availability of equitable remedies.

The remedies available to the Bond Trustees, the Master Trustee, the Issuer or the owners of the Series 2013 Bonds upon an event of default under the Master Indenture, the Bond Indentures, the Loan Agreements or the Series 2013 Obligations are in many respects dependent upon judicial actions, which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including, specifically, Title 11 of the United States Code (the "Bankruptcy Code"), the remedies provided in the Master Indenture, the Bond Indentures, the Loan Agreements and the Series 2013 Obligations and other Master Obligations may not be readily available or may be limited.

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

Limited Value at Foreclosure

The Mortgaged Property was constructed for the provision of hospital care. The number of entities that could be expected to purchase or lease the Mortgaged Property are limited, and thus, the ability of the Master Trustee to realize funds from the sale or rental of the Mortgaged Property upon an event of default may be limited.

Bond Ratings

There is no assurance that the ratings assigned to the Series 2013 Bonds will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for and marketability of the Series 2013 Bonds. See "RATINGS."

Market for the Series 2013 Bonds

The relative buying and selling interest of market participants in securities such as the Series 2013 Bonds, and in the market for such securities as a whole, will vary over time, and such variations may be affected by, among other things, news relating to the Alliance and the other Obligated Issuers, the attractiveness of alternative investments, the perceived risk of owning the security (whether related to credit, liquidity or any other risk), the tax treatment accorded the instruments, the accounting treatment accorded such securities, reactions to regulatory actions or press reports, financial reporting cycles and marketing sentiment generally. Shifts of demand in response to any one or simultaneous particular events cannot be predicted and may be short-lived or exist for longer periods. See below "Matters Affecting Tax Exemption."

Health Care Revenues

There are a number of factors that could adversely affect both revenues and expenses of the Alliance. Some, but not all such factors, are discussed briefly below. Governmental payment provisions, regulations and other restrictions change frequently and may be altered or expanded while the Series 2013 Bonds are outstanding.

Dependence on Governmental and Other Third-Party Payors. The Alliance receives a substantial portion of its revenues from Medicare, Medicaid, including TennCare, TRICARE[2] and other third-party health care programs. See Appendix A - "SOURCES OF REVENUE."

The governmental payment programs, such as Medicare, Medicaid and TRICARE, depend on funding by federal and state governments. The increasing cost of health care services and the strain on operating budgets of governmental entities have imposed significant limitations on reimbursement for services provided to beneficiaries of these programs. These challenges are expected to continue in the future. Both governmental payment programs and private third-party payors (i.e., insurance and managed care programs) have increasingly imposed limitations on the coverage of services and payment rates for services. These limitations often require hospitals to provide certain services below cost. Many of the private programs reimburse health care providers based on a percentage of payment rates from governmental programs for similar services. Thus, reductions or limitations in reimbursement under governmental programs can also result in reductions or limitations under private programs. Receipt of revenues from these programs also subjects the Alliance to extensive regulation and risks of enforcement as described below.

TennCare. In 1994, the State of Tennessee, with the approval of the federal government, withdrew from the Medicaid program and began providing services to Medicaid eligible and uninsurable or uninsured persons through TennCare, a managed care plan administered through third party insurers, rather than the traditional Medicaid program. Similar to traditional Medicaid programs, TennCare is funded with a combination of federal and State of Tennessee funds. The program generally does not pay providers amounts that are adequate to cover the cost of care provided. The Alliance is a significant provider of health care services to TennCare enrollees and, as a result, has incurred substantial losses serving TennCare beneficiaries. Approximately 8.4% of the Alliance's gross patient service charges for the fiscal year ended June 30, 2012, was derived from patients covered by TennCare. Tennessee Governor Bill Haslam announced in March 2013 that he will not pursue expanding TennCare as allowed by the Healthcare Reform Act. However, if the State of Tennessee decides otherwise in the future to expand the program, the percentage of the Alliance's gross patient service charges derived from patients covered by TennCare may increase.

Virginia Medicaid Program. The hospitals of the Alliance located in Virginia receive a substantial portion of their revenues under the federal Medicare Program. Reimbursement under this program is controlled by extensive regulations and procedures. Under the current Medicare payment system, payment for inpatient hospital services is tied to predetermined amounts based on national averages of costs for categories of treatments and conditions known as diagnosis related groups ("DRGs"). DRG reimbursement may provide a hospital less than its actual costs in providing services. The Medicare Program reimburses health care providers for outpatient hospital services through a similar prospective payment system based on ambulatory payment classifications ("APCs") of clinically-related and resource-similar items and services. Reimbursement for outpatient services under the APC system and for other services provided by the hospitals of the Alliance may not reflect the actual costs incurred in providing such services or items.

Medicare reimbursement in recent years has been subject to changes that have adversely affected hospitals and other health care providers, and the Alliance cannot predict how future limitations, cutbacks or modifications by Congress or regulatory agencies to such reimbursement may affect the financial condition of the Alliance.

Regulation. The operation of hospitals and other health care providers is extensively regulated by the federal and state governments. These regulations affect virtually every aspect of hospital operations, including (1) imposing procedures that increase costs (including complicated billing and other record-keeping procedures), (2) requiring the provision of services for free or below cost, (3) limiting the ability to make decisions based on economic best interest and (4) restricting the ability to pursue advantageous business opportunities with physicians and other health care providers.

Significant restrictions include (1) the Physician's Self-Referral ("Stark") and "Anti-Kickback" laws, and similar state laws, which severely restrict financial relationships with and referrals by physicians and other entities; (2) the Emergency Medical Treatment and Active Labor Act ("EMTALA"), imposing operating requirements upon

[2] TRICARE is the successor to CHAMPUS and provides health benefits for military personnel and retirees and their dependents.

physicians, hospitals and other facilities that provide emergency medical services; (3) the federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and the Health Information Technology for Economic and Clinical Health Act ("HITECH"), enacted as part of the American Recovery and Reinvestment Act of 2009, with both affecting the privacy and security of personal health information; (4) the federal False Claims Act, similar state false claim laws and other laws and regulations related to the billing for, coverage of and receipt of payment for services; (5) state corporate practice of medicine and fee splitting laws ; (6) licensure, certificate of need and accreditation requirements; and (7) numerous federal conditions of participation requirements for the Medicare and Medicaid programs. Compliance with HIPAA, HITECH and related regulations has imposed substantial financial burdens on the Alliance and related entities in such areas as electronic billing and other electronic transactions and in implementing procedures and altering facilities to promote privacy of patient records.

Federal and state governments have a range of criminal, civil and administrative sanctions available to penalize and remediate violations of existing laws and regulations, including criminal fines, civil monetary penalties, repayment of erroneously paid claims, prison terms and exclusion from the Medicare, Medicaid, TennCare and/or other governmental payment programs. Because of the complexity of the regulations and the increased enforcement, there are numerous circumstances where alleged violations may trigger investigations, audits and inquiries that could result in expensive and prolonged enforcement actions against the Alliance. Enforcement actions may be initiated and prosecuted by one or more government entities and/or private individuals, and in some circumstances more than one of the available penalties may be imposed for each violation. Exclusion from participation in Medicare, Medicaid, TennCare or other governmental health care programs likely would result in a loss of substantial revenues.

National Healthcare Reform

Comprehensive health care reform legislation was enacted by the federal government in March 2010 through the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the "Healthcare Reform Act"). The Healthcare Reform Act fundamentally changes the health care system and the manner in which services are provided and paid for generally, including substantial increases in health care insurance for persons not currently covered, new requirements on employers who provide health benefits to their employees, reimbursement reductions and methodology changes, and the imposition of further restrictions and requirements adversely affecting tax-exempt hospitals such as the Alliance and its related entities.

Implementation of the Healthcare Reform Act is uncertain as to timing and scope and is likely to have a variety of effects on both the operations and financial performance of hospitals. In particular, extension of health insurance to those not currently insured and the costs associated therewith may result in (1) inadequate reimbursement to cover costs under such new coverage, (2) offsetting reductions in reimbursements for the provision of services under Medicare, Medicaid and other federally funded programs and (3) increased costs of compliance generally. In addition, the Healthcare Reform Act is likely to have significant indirect effects on the Alliance and related hospitals as a result of the Healthcare Reform Act's effects on other healthcare industry participants, including pharmaceutical and medical device companies, health insurers, and others with which the Alliance and related hospitals do business.

The Healthcare Reform Act imposes substantial and costly additional requirements on nonprofit hospitals. Failure of any hospital with 501(c)(3) status to comply with such requirements may result in significant penalties including, but not limited to, the loss of tax-exempt status. See below "Matters Affecting Tax Exemption − Tax Exemption for Non-profit Corporations."

There have been, and will likely continue to be, legislative efforts in Congress to delay, repeal, amend or defund the Healthcare Reform Act or otherwise block its implementation; President Obama has announced delays to implementing the employer mandate and certain other provisions of the Act; and the Healthcare Reform Act is subject to lawsuits challenging its constitutionality and may be subject to additional lawsuits. Further, there are no implementing regulations or detailed interpretive guidance for many of the law's provisions. Thus it is impossible to predict the extent to which the Healthcare Reform Act will be implemented or the effects it will have to the extent it is implemented.

Competition

The Alliance faces competition not only from other area hospitals (see in Appendix A -"SERVICE AREA, MARKET SHARE AND COMPETITION"), but also from other forms of health care providers, including health maintenance organizations, preferred provider organizations, specialty hospitals, home health agencies, surgical centers, rehabilitation and therapy centers, physician group practices and other alternative delivery systems and non-hospital providers of medical services. Increasing costs of health care services are likely to stimulate additional forms of competition. Many new forms of health care providers may not be subject to the restrictions imposed on the Alliance by its participation in governmental health care programs and as part of a tax-exempt organization. The application of federal and state antitrust laws to health care is still evolving, and enforcement and other developments in this area could adversely affect the Alliance's competitive position.

Other Economic Developments

Other economic developments that could adversely affect operations at the Alliance include (1) unexpected increases in costs of labor and equipment (including new technologies) that cannot be recovered through charges; (2) increased costs of maintaining malpractice and general liability insurance; and (3) availability of, or the cost of, required specialty employees, including nurses and other health care professionals.

Matters Affecting Tax Exemption

Tax Exemption for Non-profit Corporations. Loss of tax-exempt status by the Alliance or related entities could result in loss of tax exemption for interest on the Series 2013A Bonds and of other tax-exempt debt issued for the benefit of the Alliance, and defaults in covenants regarding the Series 2013A Bonds and other tax-exempt debt would likely be triggered. Such an event would have material adverse consequences on the financial condition of the Alliance. See "TAX MATTERS."

The maintenance by the Alliance of its tax-exempt status and that of its related entities depends, in part, upon its maintenance of status as an organization described in Section 501(c)(3) of the Code (an "Exempt Organization"). The maintenance of such status is contingent upon compliance with provisions of the Code and related regulations and administrative interpretations regarding the organization and operation of tax-exempt entities, including its operation for charitable and educational purposes and its avoidance of transactions that may cause its assets to inure to the benefit of private individuals.

The Internal Revenue Service (the "IRS") has announced that it intends to closely scrutinize transactions between Exempt Organizations and for-profit entities and has issued audit guidelines for tax-exempt hospitals. In March 1998, the IRS issued a revenue ruling that places restrictions upon the participation of Exempt Organizations (including hospitals) in joint venture arrangements with for-profit entities. Although specific activities of hospitals, such as medical office building leases and compensation arrangements and other contracts with physicians, have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Because the Alliance conducts large-scale and diverse operations involving private parties, there can be no assurances that certain of its transactions would not be challenged by the IRS.

The IRS has taken the position that hospitals that violate the federal Anti-kickback Law may also be subject to revocation of their tax-exempt status. As a result, tax-exempt hospitals, such as those of the Alliance, which have and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny and perhaps enforcement by the IRS.

Furthermore, the Healthcare Reform Act imposed additional operational requirements on tax-exempt hospitals under new Internal Revenue Code Section 501(r) ("Section 501(r)"). Each tax-exempt hospital must (1) conduct a community health needs assessment ("CHNA") every three years; (2) have a written financial assistance policy that meets several specific requirements; (3) limit amounts charged for emergency or other medically necessary care provided to individuals eligible for financial assistance; and (4) refrain from engaging in "extraordinary" collection actions before the hospital has made reasonable efforts to determine whether an individual is eligible for financial assistance. Compliance with the CHNA requirement in particular is expected to impose substantial burdens on tax-exempt hospitals.

The penalty for failure to comply with Section 501(r) is loss of tax-exempt status at the entity level, if the organization operates one hospital, or loss of exemption at the facility level, if the organization operates more than one hospital. In addition, failure to satisfy the CHNA requirement also will result in the imposition of a $50,000 penalty excise tax on each noncompliant hospital. The Alliance believes that it is currently in compliance with Section 501(r).

Periodically, Congress considers options and recommendations in the area of taxation of unrelated business income of Exempt Organizations. The scope and effect of legislation, if any, that may be adopted at the federal and state levels with respect to unrelated business income cannot be predicted at this time. However, any such legislation could have the effect of subjecting a portion of the income of the Alliance to federal or state income taxes.

In addition to the foregoing proposals with respect to income by Exempt Organizations, various state and local governmental bodies have challenged the tax-exempt status of such institutions and have sought to remove the exemption of property from real estate taxes of part or all of the property of various nonprofit institutions on the grounds that a portion of such property was not being used to further the charitable purposes of the institutions or that the institutions did not provide sufficient care to indigent persons so as to warrant exemption from taxation as a charitable institution. Several of these disputes have been determined in favor of the taxing authorities or have resulted in settlements.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of Exempt Organizations. There can be no assurance that future changes in the laws and regulations of federal, state or local governments, or the interpretation of such laws by courts or other governmental entities, will not materially adversely affect the operations and financial condition of the Alliance by requiring any of its entities to pay income or local property taxes.

Tax-Exempt Status of the Series 2013A Bonds. Any failure by the Alliance or related entities to remain qualified as tax-exempt under Section 501(c)(3) of the Code could affect the amount of funds that would be available to pay debt service on the Series 2013 Bonds. If the Alliance or the Issuer fails to comply continuously with certain covenants contained in the 2013A Bond Indenture and the 2013A Loan Agreement after delivery of the Series 2013A Bonds, interest on the Series 2013A Bonds could become taxable from the date of delivery of the Series 2013A Bonds regardless of the date on which the event causing such taxability occurs. See "TAX MATTERS."

In recent years, the IRS has undertaken an extensive audit program that involves review of both the general tax-exempt status of non-profit hospitals and the tax-exempt status of bonds issued for their benefit.

Legislative Proposals. Current and future legislative proposals, if enacted into law, could cause interest on the Series 2013A Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent owners thereof from realizing the full current benefit of the tax-exempt status of such interest.

Other Risk Factors Generally Affecting Health Care Facilities

In the future, the following factors, among others, may adversely affect the operations of the Alliance to an extent that cannot be determined at this time:

1. Health care systems are major employers, combining a complex mix of professional, quasi-professional, technical, clerical, housekeeping, maintenance, dietary and other types of workers in a single operation. As with all large employers, the Alliance bears a wide variety of risks in connection with its employees. These risks include strikes and other related work actions, contract disputes, discrimination claims, personal tort actions, work-related injuries, exposure to hazardous materials, interpersonal torts (such as between employees, between physicians or management and employees, or between employees and patients), and other risks that may flow from the relationships between employer and employee or between physicians, patients and employees. Many

of these risks are not covered by insurance, and certain of them cannot be anticipated or prevented in advance. The Alliance is subject to all of the risks listed above. Such risks, alone or in combination, could have material adverse consequences to the financial condition or operations of the Alliance.

2. Competition from other health care systems and other competitive facilities now or hereafter located in the respective service areas of the Alliance's facilities may adversely affect revenues. Development of health maintenance and other alternative health delivery programs could result in decreased usage of inpatient hospital facilities and other facilities operated by the Alliance.

3. Cost and availability of any insurance, such as malpractice, fire, automobile, and general comprehensive liability, that hospitals and other health care facilities of similar size and type as the facilities generally carry may adversely affect revenues, as would any losses that exceed amounts covered.

4. The occurrences of natural disasters may damage some or all of the facilities, interrupt utility service to some or all of the facilities, significantly increase the demand on some or all of the facilities or otherwise impair the operation of some or all of the facilities or the generation of revenues from some or all of the facilities.

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

6. Reduced demand for the services of the Alliance that might result from decreases in population in the services areas of facilities operated by the Alliance.

7. Increased unemployment or other adverse economic conditions in the service areas of the Alliance that would increase the proportion of patients who are unable to pay fully for the cost of their care.

8. Any increase in the quantity or cost of indigent care provided that is mandated by law or required due to increase needs of the community in order to maintain the charitable status of the Alliance.

9. Regulatory actions that might limit the ability of the Alliance to undertake capital improvements to their respective facilities or to develop new institutional health services.

LITIGATION

There is no action, suit, or proceeding pending or, to the knowledge of the Issuer, threatened restraining or enjoining the execution or delivery of the Series 2013 Bonds, or in any way contesting or affecting the validity of the Series 2013 Bonds, the Bond Indentures, the Master Indenture, or any proceedings of the Issuer or the Alliance, as applicable, taken with respect thereto. No securities of the Issuer have been in default as to principal or interest payments or in any other material respect, and no agreements or legal proceedings of the Issuer relating to its securities have been declared invalid or unenforceable since the formation of the Issuer. The Issuer will provide a certificate to this effect at the time of delivery of the Series 2013 Bonds.

There is no action, suit, or proceeding pending or threatened restraining or enjoining the execution or delivery of the Series 2013 Obligations, or in any way contesting or affecting the validity of the Series 2013 Obligations, the Master Indenture, the Loan Agreements or any proceedings of the Alliance taken with respect thereto. No securities of the Alliance have been in default as to principal or interest payments or in any other material respect, and no agreements or legal proceedings of the Alliance relating to its securities have been declared invalid or unenforceable since the original formation of the corporation now called Mountain States Health Alliance. The Alliance will provide a certificate to this effect at the time of delivery of the Series 2013 Bonds.

For other litigation matters involving the Alliance, see "HISTORY AND OVERVIEW - Insurance; Litigation" in Appendix A hereto.

LEGAL MATTERS

Legal matters relating to the authorization and issuance of the Series 2013 Bonds are subject to the approving opinion of Bass, Berry & Sims PLC of Nashville and Knoxville, Tennessee, as Bond Counsel, which will be delivered with the Series 2013 Bonds. Certain legal matters relating to the Series 2013 Bonds will also be passed upon by Samuel B. Miller, Esq., Johnson City, Tennessee, as counsel to the Issuer; and by Anderson & Fugate, Johnson City, Tennessee, as counsel to the Alliance. Certain legal matters will be passed upon by Thompson Coburn LLP, St. Louis, Missouri, as counsel to the Bank. Certain legal matters will be passed upon by Hunton & Williams LLP, as counsel to the Underwriter.

TAX MATTERS

Tennessee State Tax Exemption

Under existing law, the Series 2013 Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on interest on the Series 2013 Bonds during the period the Series 2013 Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership doing business in the State, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Series 2013 Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State.

Series 2013A Bonds

General. Bass, Berry & Sims PLC, Nashville, Tennessee, is Bond Counsel for the Series 2013A Bonds. Bond Counsel is of the opinion that, under existing law, relying on certain statements by the Issuer and the Alliance and assuming compliance by the Issuer and the Alliance with certain covenants, interest on the Series 2013A Bonds is:

- excluded from a bondholder's federal gross income under the Internal Revenue Code of 1986,
- not a preference item for a bondholder under the federal alternative minimum tax;
- included in the adjusted current earnings of certain corporations for purposes of the federal corporate alternative minimum tax.

The Internal Revenue Code of 1986, as amended (the "Code") imposes requirements on the Series 2013A Bonds that the Issuer and the Alliance must continue to meet after the Series 2013A Bonds are issued. These requirements generally involve the way that Series 2013A Bond proceeds must be invested and ultimately used. If the Issuer and the Alliance do not meet these requirements, it is possible that a bondholder may have to include interest on the Series 2013A Bonds in its federal gross income on a retroactive basis to the date of issue. The Issuer and the Alliance have covenanted to do everything necessary to meet these requirements of the Code.

A bondholder who is a particular kind of taxpayer may also have additional tax consequences from owning the Series 2013A Bonds. This is possible if a bondholder is:

- an S corporation,
- a United States branch of a foreign corporation,
- a financial institution,
- a property and casualty or a life insurance company,
- an individual receiving Social Security or railroad retirement benefits,
- an individual claiming the earned income credit, or
- a borrower of money to purchase or carry the Series 2013A Bonds.

If a bondholder is in any of these categories, it should consult its tax advisor.

Bond Counsel is not responsible for updating its opinion in the future. It is possible that future events or changes in applicable law could change the tax treatment of the interest on the Series 2013A Bonds or affect the market price of the Series 2013A Bonds.

Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel on the federal income tax treatment of interest on the Series 2013A Bonds, or under state, local or foreign tax law.

Original Issue Discount. A Series 2013A Bond will have "original issue discount" if the price paid by the original purchaser of such Series 2013A Bond is less than the principal amount of such Series 2013A Bond. Bond Counsel's opinion is that any original issue discount on the Series 2013A Bond as it accrues is excluded from a bondholder's federal gross income under the Internal Revenue Code. The tax accounting treatment of original issue discount is complex. It accrues on an actuarial basis and as it accrues a bondholder's tax basis in the Series 2013A Bonds will be increased. If a bondholder owns one of the Series 2013A Bonds, it should consult its tax advisor regarding the tax treatment of original issue discount.

Bond Premium. If a bondholder purchases a Series 2013A Bond for a price that is more than the principal amount, generally the excess is "bond premium" on that Series 2013A Bond. The tax accounting treatment of bond premium is complex. It is amortized over time and as it is amortized a bondholder's tax basis in that Series 2013A Bond will be reduced. The holder of a Series 2013A Bond that is callable before its stated maturity date may be required to amortize the premium over a shorter period, resulting in a lower yield on such Series 2013A Bond. A bondholder in certain circumstances may realize a taxable gain upon the sale of a Series 2013A Bond with bond premium, even though the Series 2013A Bond is sold for an amount less than or equal to the owner's original cost. If a bondholder owns any Series 2013A Bonds with bond premium, it should consult its tax advisor regarding the tax accounting treatment of bond premium.

Series 2013B Bonds

Disclaimer. Any discussion of the tax issues relating to the Series 2013B Bonds in this Official Statement was written to support the promotion or marketing of the Series 2013B Bonds. Such discussion was not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding any tax penalties that may be imposed on such person. Each investor should seek advice with respect to the Series 2013B Bonds based on its particular circumstances from an independent tax advisor.

General. The following is a summary of certain anticipated United States federal income tax consequences of the purchase, ownership and disposition of the Series 2013B Bonds. The summary is based upon the provisions of the Code, the regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change. The summary generally addresses Series 2013B Bonds held as capital assets and does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject to special treatment under the federal income tax laws, including but not limited to financial institutions, insurance companies, dealers in securities or currencies, those holding such bonds as hedge against currency risks or as a position in a "straddle" for tax purposes, or those whose functional currency is not the United States dollar. Potential purchasers of the Series 2013B Bonds should consult their own tax advisors in determining the federal, state or local consequences to them of the purchase, ownership and disposition of the Series 2013B Bonds.

Interest on the Series 2013B Bonds is not excluded from gross income for federal income tax purposes. Purchasers other than those who purchase Series 2013B Bonds in the initial offering at their stated principal amounts will be subject to federal income tax accounting rules affecting the timing and/or characterization of payments received with respect to such Series 2013B Bonds. In general, interest paid on the Series 2013B Bonds, accrual of original issue discount and market discount, if any, will be treated as ordinary income to an owner of Series 2013B Bonds and, after adjustment for the foregoing, principal payments will be treated as a return of capital.

Original Issue Discount. The following summary is a general discussion of certain federal income tax consequences of the purchase, ownership and disposition of Series 2013B Bonds issued with original issue discount ("Discount Taxable Bonds"). A Series 2013B Bond will be treated as having original issue discount if the excess of its "stated redemption price at maturity" (defined below) over its issue price (defined as the initial offering price at which a substantial amount of the Series 2013B Bonds of the same maturity have first been sold to the public, excluding bond houses and brokers) equals or exceeds one quarter of one percent of such Series 2013B Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity.

A Discount Taxable Bond's "stated redemption price at maturity" is the total of all payments provided by the Discount Taxable Bond that are not payments of "qualified stated interest." Generally, the term "qualified stated interest" includes stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate.

In general, the amount of original issue discount includable in income by the initial holder of a Discount Taxable Bond is the sum of the "daily portions" of original issue discount with respect to such Discount Taxable Bond for each day during the taxable year in which such holder held such Discount Taxable Bond. The daily portion of original issue discount on any Discount Taxable Bond is determined by allocating to each day in any "accrual period" a ratable portion of the original issue discount allocable to that accrual period.

An accrual period may be of any length, and may vary in length over the term of a Discount Taxable Bond, provided that each accrual period is not longer than one year and each scheduled payment of principal or interest occurs at the end of an accrual period. The amount of original issue discount allocable to each accrual period is equal to the difference between (i) the product of the Discount Taxable Bond's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Discount Taxable Bond at the beginning of any accrual period is the sum of the issue price of the Discount Taxable Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Discount Taxable Bond that were not qualified stated interest payments. Under these rules, holders will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

Holders utilizing the accrual method of accounting may generally, upon election, include all interest (including stated interest, acquisition discount, original issue discount, de minimis original issue discount, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) on the Discount Taxable Bond by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions.

Market Discount. Any owner who purchases a Series 2013B Bond at a price which includes market discount in excess of a prescribed de minimis amount (*i.e.*, at a purchase price that is less than its adjusted issue price in the hands of an original owner) will be required to recharacterize all or a portion of the gain as ordinary income upon receipt of each scheduled or unscheduled principal payment or upon other disposition. In particular, such owner will generally be required either (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a Series 2013B Bond as ordinary income to the extent of any remaining accrued market discount (under this caption) or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest.

An owner who acquires a Series 2013B Bond at a market discount also may be required to defer, until the maturity date of such Series 2013B Bond or the earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry a Series 2013B Bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such Series

2013B Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Series 2013B Bonds for the days during the taxable year on which the owner held the Series 2013B Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Series 2013B Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral does not apply if the bondowner elects to include such market discount in income currently as described above.

Bond Premium. A purchaser who purchases a Series 2013B Bond at a cost greater than its then principal amount (or, in the case of Series 2013B Bond issued with original issue premium, at a price in excess of its adjusted issue price) will have amortizable bond premium. If the holder elects to amortize the premium under Section 171 of the Code (which election will apply to all bonds held by the holder on the first day of the taxable year to which the election applies, and to all bonds thereafter acquired by the holder), such a purchaser must amortize the premium using constant yield principles based on the purchaser's yield to maturity. Amortizable bond premium is generally treated as an offset to interest income, and a reduction in basis is required for amortizable bond premium that is applied to reduce interest payments. Purchasers of any Series 2013B Bonds who acquire such Series 2013B Bonds at a premium (or with acquisition premium) should consult with their own tax advisors with respect to the determination and treatment of such premium for federal income tax purposes and with respect to state and local tax consequences of owning such Series 2013B Bonds.

Sale or Redemption of Series 2013B Bonds. A bondowner's tax basis for a Series 2013B Bond is the price such owner pays for the Series 2013B Bond plus the amount of any original issue discount and market discount previously included in income, reduced on account of any payments received (other than "qualified stated interest" payments) and any amortized bond premium. Gain or loss recognized on a sale, exchange or redemption of a Series 2013B Bond, measured by the difference between the amount realized and the basis of the Series 2013B Bond as so adjusted, will generally give rise to capital gain or loss if the Series 2013B Bond is held as a capital asset (except as discussed above under "Market Discount"). The legal defeasance of Series 2013B Bonds may result in a deemed sale or exchange of such Series 2013B Bonds under certain circumstances; owners of such Series 2013B Bonds should consult their tax advisors as to the federal income tax consequences of such an event.

Backup Withholding. A bondowner may, under certain circumstances, be subject to "backup withholding" (currently the rate of this withholding obligation is 28%, but the rate may change in the future) with respect to interest or original issue discount on the Series 2013B Bonds. This withholding generally applies if the owner of a Series 2013B Bond (a) fails to furnish the Registration Agent or other payor with its taxpayer identification number; (b) furnishes the Registration Agent or other payor an incorrect taxpayer identification number; (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code; or (d) under certain circumstances, fails to provide the Registration Agent or other payor with certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to certain payments made to bondowners, including payments to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents. Owners of the Series 2013B Bonds should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

Backup withholding is not an additional tax. Any amount paid as backup withholding would be credited against the bondholder's U.S. federal income tax liability, provided that the requisite information is timely provided to the Internal Revenue Service. The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the Series 2013B Bonds will be reported to the bondowners and to the Internal Revenue Service.

Nonresident Borrowers. Under the Code, interest and original issue discount income with respect to Series 2013B Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons ("Nonresidents") generally will not be subject to the United States withholding tax (or backup withholding) if the Alliance (or other who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement that the beneficial owner of the Series 2013B Bond is a Nonresident. Notwithstanding the foregoing, if any such payments are effectively connected with a United States trade or business conducted by a

Nonresident bondowner, they will be subject to regular United States income tax, but will ordinarily be exempt from United States withholding tax.

Changes In Federal And State Tax Law

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Series 2013 Bonds or otherwise prevent holders of the Series 2013A Bonds from realizing the full benefit of the tax exemption of interest on the Series 2013A Bonds. Further, such proposals may impact the marketability or market value of the Series 2013 Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Series 2013 Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2013 Bonds would be impacted thereby. Purchasers of the Series 2013 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2013 Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Prospective purchasers of the Series 2013 Bonds should consult their own tax advisors regarding the foregoing matters.

Copies of the proposed forms of Bond Counsel opinions for the Series 2013A Bonds and the Series 2013B Bonds are set forth in **Appendix D** attached hereto.

RATINGS

Fitch Ratings ("Fitch") has assigned ratings of AA-/F1+ to the Series 2013 Bonds.

Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. ("S&P") is expected to assign ratings of AA-/A1+ to the Series 2013 Bonds.

Each such rating is based on the availability of the Letters of Credit and reflects only the views of the rating agency assigning such rating and an explanation of the significance of such rating should be obtained from the applicable rating agency itself. Certain materials and information relating to the Series 2013 Bonds, the Bank and the Alliance that may not be described in this Official Statement were furnished to the rating agencies in connection with the issuance of the ratings. Generally, rating agencies base their ratings on such materials and information and on their own investigations, studies and assumptions. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant.

No information is provided regarding the ratings of other outstanding bonds issued for the benefit of the Alliance and related entities.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch" or the "Underwriter") has agreed to purchase (1) the Series 2013A Bonds at a price of $16,179,801, representing the par amount of the Series 2013A Bonds less an Underwriter's discount of $55,199 (0.34% of the principal amount thereof); and (2) the Series 2013B Bonds at a price of $99,341,088, representing the par amount of the Series 2013B Bonds less an Underwriter's discount of $338,912 (0.34% of the principal amount thereof). Merrill Lynch is committed to take and pay for all of the Series 2013 Bonds if any are taken.

The prices at which the Series 2013 Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices. In addition, the Underwriter may allow commissions or discounts to dealers and others from the initial offering prices appearing on the cover page of this Official Statement. From time to time, the Underwriter may enter into other transactions with the Alliance, including interest rate swaps and options, for which it receives other compensation.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriter and its affiliates may, from time to time, perform various financial advisory and investment banking services for the Alliance, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Alliance. The Underwriter and its affiliates also may communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

INDEPENDENT AUDITORS

The consolidated financial statements of the Alliance as of and for the years ended June 30, 2012 and 2011, included in Appendix B to this Official Statement, have been audited by Pershing Yoakley & Associates, P.C. See also "CONDENSED SUMMARY OF REVENUE AND EXPENSES; FINANCIAL STATEMENTS" in Appendix A.

CONTINUING DISCLOSURE AGREEMENT

The Agreement

To permit compliance by the Underwriter with the continuing disclosure requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, the Alliance will execute a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") at closing pursuant to which the Alliance will agree to provide certain quarterly and annual financial information and notices regarding certain enumerated events required by the Rule. Such information will be filed through the Electronic Municipal Market Access System ("EMMA") maintained by the Municipal Securities Rulemaking Board and may be accessed through the Internet at emma.mrsb.org. The proposed form of the Continuing Disclosure Agreement is set forth in Appendix E. It requires the Alliance to provide **only limited information at specific times, and the information provided may not be all the information necessary to value the Series 2013 Bonds at any particular time.** The Alliance may from time to time disclose certain information and data in addition to that required by the Continuing Disclosure Agreement. If the Alliance chooses to provide any additional information, the Alliance shall have no obligation to continue to update such information or to include it in any future disclosure filing.

Failure by the Alliance to comply with the Continuing Disclosure Agreement is not an Event of Default under the Loan Agreements. The Continuing Disclosure Agreement provides that the only remedy for its violation is a lawsuit seeking specific performance.

Prior Undertakings

In connection with the issuance of previous bonds, the Alliance has entered into continuing disclosure undertakings similar to the Continuing Disclosure Agreement. Prior to July 1, 2009, the Alliance's filings under such undertakings were made through the then existing national recognized municipal securities information repositories. Since then filings have been made through EMMA.

The Alliance failed to make certain filings previously scheduled under previous continuing disclosure undertakings. In November, 2008, the Alliance submitted Annual Financial Information for the fiscal years ended June 30, 2000, through June 30, 2008, and Quarterly Financial Information for the quarters ended March 31, 2000, through June 30, 2008. Such filings were not timely under the Alliance's existing continuing disclosure undertakings. The Alliance has made timely filings of the Quarterly Financial Information for the quarters ended September 30, 2008, through March 31, 2013. The Alliance believes it has now made all filings required under all of its continuing disclosure undertakings.

RELATIONSHIPS OF PARTIES

As noted above, the Alliance or its affiliates have entered into interest rate swaps and other financial transactions with affiliates of the Underwriter.

From time to time, Bond Counsel and Hunton & Williams LLP have represented the Alliance in other matters, and may do so in the future. Bond Counsel also has represented the Underwriter in unrelated transactions. Anderson & Fugate, counsel to the Alliance, receives a substantial portion of its annual legal fee income from the Alliance. The Alliance typically engages in bidding to select the contractors for its capital projects. Whether or not such projects are bid, from time to time the contractor selected may be one in which members of the board of directors of the Issuer or the Alliance have an interest.

MISCELLANEOUS

This Official Statement and its distribution and use by the Underwriter have been duly authorized and approved by the Issuer and by the Alliance. This Official Statement has been executed and delivered by the Chairman of the Issuer on behalf of the Issuer and by the Senior Vice President and Chief Financial Officer of the Alliance on behalf of the Alliance.

So far as any statements made in this Official Statement involve matters of opinion, forecasts or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement.

THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF THE CITY OF JOHNSON CITY, TENNESSEE

By *\/s\/ W. Hanes Lancaster*
Chairman

MOUNTAIN STATES HEALTH ALLIANCE

By *\/s\/ Marvin H. Eichorn*
Senior Vice President and Chief Financial Officer

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APPENDIX A

MOUNTAIN STATES HEALTH ALLIANCE

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HISTORY AND OVERVIEW

Background

Mountain States Health Alliance (the "Alliance"), a Tennessee not-for-profit corporation headquartered in Johnson City, Tennessee, was originally incorporated as Memorial Hospital on April 12, 1945. In January 1951, the corporation acquired Appalachian Hospital and Training School, an 82-bed acute care facility in Johnson City, and simultaneously opened a 120-bed acute care facility in Johnson City. By 1977, its facilities had expanded to include 369 acute care beds and a 52-bed nursing home. In September 1980, the facilities were relocated and began operating as the Johnson City Medical Center ("JCMC"). In 1983, the corporation changed its name to the Johnson City Medical Center Hospital, Inc. The corporation has been determined to be an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

In 1998, the Alliance purchased the assets and assumed certain liabilities of five hospitals from Columbia/HCA (the "1998 Acquisition") located in Johnson City, Kingsport, and Elizabethton, Tennessee. In 1999, the corporation changed its name to Mountain States Health Alliance. On May 1, 2005, the Alliance purchased the assets of Woodridge Hospital, an acute inpatient psychiatric facility in Johnson City. On November 1, 2006, the Alliance purchased an 80% membership interest in Smyth County Community Hospital, which owns a general acute care facility and a 109-bed long-term care facility in Southwest Virginia. On October 31, 2007, the Alliance purchased a 50.1% membership interest in Norton Community Hospital, which owns and operates both Norton Community Hospital and Dickenson County Community Hospital in Southwest Virginia. On January 31, 2008, the Alliance acquired the assets and liabilities of Russell County Medical Center in Lebanon, Virginia. On April 1, 2009, the Alliance acquired a 50.1% interest in Johnston Memorial Hospital, which owns a 116-bed facility in Abingdon, Virginia. Listed below are facilities currently owned or controlled by the Alliance:

Facility	Location	Licensed Beds (excludes nursery)
Johnson City Medical Center ("JCMC")*	Johnson City, TN	514
James H. & Cecile Quillen Rehabilitation Hospital ("Quillen") *	Johnson City, TN	60
Woodridge Hospital ("Woodridge")*	Johnson City, TN	84
Franklin Woods Community Hospital ("Franklin Woods")	Johnson City, TN	80
Indian Path Medical Center ("Indian Path")	Kingsport, TN	261
Sycamore Shoals Hospital ("Sycamore Shoals")	Elizabethton, TN	121
Johnson County Community Hospital ("Johnson County Community")	Mountain City, TN	2
Smyth County Community Hospital ("Smyth County Community") (1)	Marion, VA	153
Norton Community Hospital ("Norton Community") (2)	Norton, VA	129
Dickenson Community Hospital ("Dickenson Community") (2)	Clintwood, VA	25
Russell County Medical Center ("Russell")	Lebanon, VA	78
Johnston Memorial Hospital ("Johnston Memorial") (2)	Abingdon, VA	116
		1,623

*JCMC, Quillen and Woodridge are operated under a single 658-bed hospital license.
(1) 80% membership interest held by the Alliance.
(2) 50.1% membership interest held by the Alliance.

In addition to the above-described hospital facilities, the Alliance owns directly or through wholly-owned subsidiaries, medical office buildings, physician practices, undeveloped land and outpatient surgery centers. The Alliance is a majority shareholder of Integrated Solutions Health Network, LLC ("ISHN").

Operations of the Alliance

The facilities of the Alliance are naturally divided geographically into two groupings: (i) the "Tennessee Facilities," which include JCMC, Quillen, Woodridge, and Franklin Woods, all in Washington County; Indian Path, in Sullivan County; Sycamore Shoals, in Carter County; and Johnson County Community, in Johnson County; and (ii) the "Virginia Facilities," which include Smyth County Community, in Smyth County; Norton Community, in the City of Norton; Dickenson Community, in Dickenson County; Russell, in Russell County; and Johnston Memorial, in Washington County. All of the Tennessee hospital facilities and Russell are owned by the Alliance. Smyth County Community is owned by Smyth County Community Hospital; Norton Community is owned by Norton Community Hospital; and Johnston Memorial is owned by Johnston Memorial Hospital.

Johnson City Medical Center is a 514 licensed bed, general acute care facility located on a 75-acre site on State of Franklin Road, a major regional thoroughfare in Johnson City. JCMC provides a wide array of acute care services on an inpatient and outpatient basis, including a complete range of cardiovascular, neurology, oncology, skilled nursing, and rehabilitation services. JCMC also operates a 69 licensed bed children's hospital with the region's only pediatric-specific emergency department. JCMC is designated as a Level III Perinatal Center and a Level I trauma center. JCMC earned international recognition as a Magnet Hospital by the American Nurses Credentialing Center. On or adjacent to JCMC's main campus are seven physician office buildings providing office space for approximately 75 physicians.

The James H. & Cecile C. Quillen Rehabilitation Hospital (formerly Northeast Tennessee Rehabilitation Hospital) is a 60 licensed bed rehabilitation and skilled nursing hospital in Johnson City, operated under the JCMC license. This facility provides a complete array of skilled nursing services as well as rehabilitative services for individuals with brain injury, stroke, or spinal cord injury, amputation and other orthopedic and neurological diagnosis. These rehabilitative services include respiratory, occupational, physical, and speech therapy. The facility also provides pediatric outpatient rehab services. The facility was constructed in 1991.

Woodridge Hospital is an 84 licensed bed, acute-care facility located in Johnson City, offering psychiatric and substance abuse services. This facility was purchased in May 2005 and is operated under the JCMC license.

Franklin Woods Community Hospital is an 80 licensed bed facility offering a full array of primary care and some specialty services. Franklin Woods opened in July 2010 (replacing Johnson City Specialty and North Side hospitals) and was the first "green" hospital in the state.

Indian Path Medical Center is a 261 licensed bed facility in Kingsport. This facility provides a complete range of medical/surgical, acute care, psychiatric and skilled nursing services on an inpatient basis and a full complement of outpatient services. The facility is located on an 80 acre campus that also includes nine medical office buildings. Indian Path Medical Center was constructed in 1974.

Sycamore Shoals Hospital is a 121 licensed bed general acute care hospital in Elizabethton, Tennessee (Carter County). The facility provides inpatient, geropsychiatric, and outpatient services for acute care and medical/surgical patients. Sycamore Shoals was founded in 1955 as Carter County Memorial Hospital. It was moved to a newly constructed facility in 1986. A medical office building constructed in 2010 is also located on the main campus.

Johnson County Community Hospital is a facility located in Mountain City with two licensed beds and critical access designation. Johnson County offers inpatient care, emergency care, and outpatient services.

Smyth County Community Hospital is a 153 licensed bed, Medicare Dependent, skilled and long term care hospital in Marion, Virginia, owned by Smyth County Community Hospital (the "Smyth County Corporation"), a Virginia non-stock corporation in which the Alliance controls an 80% interest. The current facility was built in 2012, and provides a full range of acute inpatient and outpatient care, including OB/GYN, general surgery, urology, ENT, orthopedics, cardiology, oncology, and skilled nursing services. The new facility meets LEED standards and is certified as a "green" facility. Nursing home services provided by Francis Marion Manor, a 109 licensed bed long term care facility, are included as part of Smyth County Community's bed complement. Smyth County Corporation is a member of the Obligated Group.

Norton Community Hospital, located in the City of Norton, Virginia, is a 129 licensed bed, acute-care facility, which has served Southwest Virginia and Southeastern Kentucky since 1949. Norton Community is owned and operated by Norton Community Hospital (the "Norton Corporation"), a Virginia non-stock corporation in which the Alliance controls a 50.1% interest. The largest healthcare facility in the coalfield region, Norton Community provides a wide array of services through highly trained physicians and support staff. Norton Community is a member of the Virginia Hospital and Healthcare Association and is accredited by the American Osteopathic Association. Norton Community was the first AOA accredited teaching facility in the state of Virginia. The Norton Corporation is a member of the Obligated Group.

Dickenson Community Hospital, located in Clintwood, Virginia, opened in November 2003. It is a 25 licensed bed critical access hospital owned and operated by the Norton Corporation. A recent expansion included a 5,700 square foot physician office building on the hospital campus. Dickenson Community offers laboratory, imaging, inpatient acute care and a wide array of therapy services. Dickenson Community is not a member of the Obligated Group.

Russell County Medical Center is a 78-bed Medicare Dependent Hospital located in Lebanon, Virginia, which includes a 20-bed inpatient psychiatric unit. Russell offers cardiac, home health, hospice, surgical and behavioral healthcare services. Russell is wholly owned by the Alliance, which is an Obligated Issuer.

Johnston Memorial Hospital is a 116 licensed bed, general acute care hospital in Abingdon, Virginia, which can trace its history back to a 12 bed facility started in 1905. Johnston Memorial provides a wide array of healthcare services in a newly constructed facility that opened in 2011. Johnston Memorial is owned and operated by Johnston Memorial Hospital, Inc. (the "Johnston Corporation"), in which the Alliance owns a 50.1% interest. The Johnston Corporation is not a member of the Obligated Group and the Obligated Issuers are not required to pay debt service on the JMH Bonds.

Future Facilities

On March 28, 2013, the Alliance executed an agreement to acquire Unicoi County Memorial Hospital, a 48-bed acute care hospital located in Erwin, Tennessee. The hospital has approximately 250 employees and offers emergency, surgical, and home health services. Nursing home services are provided in a 46 licensed bed long term care facility. The Alliance will fund the acquisition from cash flow. After consideration of the revenues and expenses expected from operations of the facility, management of the Alliance does not expect this acquisition to have a material effect on the Alliance. The Tennessee attorney general's office has delayed its decision on whether to approve the acquisition pending, among other things, certain local approvals.

Operations of Subsidiary and Other Affiliates

The Alliance directly owns and operates the hospital facilities listed above that are located in Tennessee, and directly owns and operates Russell in Lebanon, Virginia. It has controlling membership interests in the corporations that own Smyth County Community, Norton Community, Dickinson Community and Johnston Memorial. Additionally, the Alliance owns or otherwise controls a number of for-profit and not-for-profit affiliates that provide complementary health care services and help support the health care needs of the region. The principal affiliates are Mountain States Foundation, Inc., Mountain States Health Alliance Auxiliary, Integrated Solutions Health Network ("ISHN"), and Blue Ridge Medical Management Corporation ("Blue Ridge").

ISHN is a Tennessee for-profit limited liability company established in 2009 and 99.6% owned by the Alliance. ISHN administers a provider-sponsored health care delivery network. ISHN has two lines of business: (1) Anew Care Collaborative - an accountable care organization (the "ACO") and (2) CrestPoint Health ("CrestPoint"). The ACO has created a network of participating physicians, hospitals and other health care providers, and participates, pursuant to a contract with the Centers for Medicare and Medicaid Services, in the Medicare Shared Savings Program established pursuant to Section 3022 of the Patient Protection and Affordable Care Act and its implementing regulations. The ACO may enter into shared savings or other contracts with other third party payors. CrestPoint provides third party administrator services to the Alliance for its self-insured employee health plan. In the fall of 2012, CrestPoint began offering a regionally-based Medicare advantage plan.

Blue Ridge is a Tennessee for-profit stock corporation, and the Alliance owns 100% of its stock. Blue Ridge in turn owns all of the stock or other ownership interest in the following entities (collectively, the "Blue Ridge Affiliates"): Mountain States Physician Group, Inc., Mountain States Properties, Inc., Mediserve Medical Equipment of Kingsport, Inc., HealthPlus, and Synergy Health Group LLC. While Blue Ridge is an Obligated

Issuer under the Master Indenture, none of the Blue Ridge Affiliates is an Obligated Issuer. Blue Ridge provides, directly or through the Blue Ridge Affiliates, management services for clinics in 13 counties at 97 locations (50 specialty care, 37 primary care, and 10 urgent care and occupational medicine clinics). At the 97 locations, Blue Ridge provides management services to a total of 196 practicing physicians, 78 nurse practitioners and physician assistants and five nurse anesthetists. Blue Ridge has various levels of ownership in five surgery centers and owns and/or manages a total of 29 medical office buildings, seven of which are held in condominium-ownership form.

Obligated Issuers

The Obligated Issuers under the Amended and Restated Master Trust Indenture dated as of February 1, 2000, as amended (the "Master Indenture"), with The Bank of New York Mellon Trust Company, N.A., as master trustee, are the Alliance, Smyth County Community Hospital, Norton Community Hospital and Blue Ridge Medical Management Corporation.

Inpatient Bed Complement

The following table shows the Alliance's licensed bed capacity by service line as of May 31, 2013:

Service	Licensed Beds	Distribution
Medical/Surgical	996	61%
OB/GYN	86	6
Critical Care	125	8
Neonatal	51	3
Psychiatry	136	8
Rehabilitation	51	3
Skilled Nursing / Nursing Home	178	11
Total	1,623	100%

Source: The Alliance.

Educational Programs

Pursuant to an agreement with the Division of Health Sciences at East Tennessee State University ("ETSU"), the Alliance provides JCMC as a site for clinical and other training of medical students and residents from ETSU's James H. Quillen College of Medicine ("QCM"), nursing students at the associate, baccalaureate and master's level from the School of Nursing and students from the School of Public and Allied Health. Woodridge provides sites for clinical training for QCM psychiatric residents. Approved medical residencies are offered by ETSU in Family Medicine, Internal Medicine/Psychiatry, OB/GYN, Pathology, Pediatrics, Cardiology, Infectious Disease, Pulmonary/Critical Care, Sleep and General Surgery. Approved fellowships are offered by ETSU in Gastroenterology and Medical Oncology. JCMC is also a clinical site for various health professional and allied health programs located in Tennessee, Kentucky, Virginia and North Carolina.

QCM, which is located adjacent to JCMC, has made a commitment to promote medical educational programs in Johnson City, Tennessee. With QCM's location adjacent to JCMC and the Veteran Affairs Medical Center at Mountain Home, a large portion of QCM's clinical training occurs at JCMC. An ETSU facility housing clinical training programs is located across the street from JCMC. QCM's presence promotes the presence of substantial numbers of physicians in private practice. Additionally, the concentration of medical specialists, researchers, and medical educators in Johnson City make the Alliance competitively stronger in patient care opportunities in the region and also provides a good source of nurses for Alliance facilities.

Licenses and Accreditation

The Tennessee Facilities are licensed by the State of Tennessee Department of Health and Environment; the Virginia Facilities are licensed by the Virginia Department of Health. All facilities are accredited by The Joint Commission ("TJC"). Norton and Quillen are accredited by the Commission of Accreditation of Rehabilitation

Facilities. The Alliance facilities are accredited by the College of American Pathologists. JCMC is also accredited by the American College of Surgeons Commission on Cancer and is designated as a Regional Perinatal Center by the Tennessee Department of Health and Environment.

Employees

As of April 30, 2013, the Alliance employed a staff of 9,044 persons (equal to approximately 7,478 full-time equivalent employees), including 3,634 registered/licensed practical nurses. The Alliance's employees are covered for a variety of employee benefits, including qualified pension plans, health and dental insurance, life insurance and vacation, holiday and sick time benefits. Certain employees at Norton Community and Dickenson Community are represented by a union. The Alliance has never experienced a strike or other work stoppage by its employees. The Alliance considers its employee relations to be excellent.

Pension Plans

The Alliance has qualified defined contribution pension plans covering substantially all of its employees. Contributions to the defined contribution pension plans are current. The Norton Corporation has a defined benefit plan that was amended to freeze participation and all benefit accruals effective December 31, 2006. The Norton Corporation's defined benefit plan has met the ERISA minimum funding requirements.

Insurance; Litigation

The Alliance is substantially self-insured and has established self-insurance reserves to provide for professional and general liability claims and related expenses in amounts based upon an annual actuarial valuation. The self-insurance program currently has the following limits: $10,000,000 per claim; with an annual aggregate of $15,000,000. The Alliance has never had a claim to exceed the self-insurance limits. The Alliance maintains a $25,000,000 excess/umbrella policy, which attaches over the self-insurance fund's $10,000,000 per claim, $15,000,000 annual aggregate retention.

Additionally, the Alliance is self-insured for employee health and worker's compensation claims for the Tennessee Facilities. For the Virginia Facilities, the Alliance is self-insured for employee health. The Alliance maintains a large deductible policy for worker's compensation claims with limits of $750,000 per employee per accident, $2,500,000 aggregate, $5,000,000 all covered bodily injury aggregate maximum for the policy period. The Alliance recognizes expense each year based upon actual claims paid and an estimate of claims incurred, but not yet paid. The Alliance has established a reserve for reported and unreported worker's compensation claims based upon an annual actuarial valuation.

The Alliance and related entities are defendants in litigation relating to medical malpractice, worker's compensation and other claims arising in the ordinary course of business. Based on an evaluation of pending and threatened actions, management of the Alliance does not believe that any existing litigation, individually or collectively, would materially and adversely affect the financial resources of the Alliance or the business or continuous operation of the Alliance. Furthermore, the Alliance has accrued amounts in its self-insurance reserves at levels that it believes are sufficient to provide for payments reasonably projected to be due in connection with pending and potential claims and liabilities of the Alliance.

MEDICAL SERVICES

The Alliance provides a wide range of general and specialty medical services for the residents of Northeast Tennessee and Southwest Virginia and the surrounding states of Kentucky and North Carolina. The majority of tertiary care provided by the Alliance is concentrated at Johnson City Medical Center. Some highlights of the medical services and programs offered by the Alliance are described below.

Surgical Services. The Alliance has approximately 60 operating rooms located in eight facilities. The Alliance's surgical facilities are equipped with state-of-the-art technologies to meet the health care needs of the region. The Alliance provides services in all major surgical specialties including orthopedics, vascular, cardiothoracic, neurological, general, gynecological, laparoscopic, laser, urological, oncological, pediatric, plastic, ear, nose and throat, and dental.

Cardiovascular Services. The Alliance offers comprehensive regional cardiac services and highly advanced equipment for the detection, treatment, care and rehabilitation of those with heart problems. Advanced services include a wide range of non-invasive tests, cardiac catheterization, angioplasty and open-heart surgery. JCMC is known throughout the region for its medical expertise in cardiac care and has been recognized as the region's top hospital for cardiovascular services by US News and World Report for three consecutive years, most recently in 2012. Indian Path provides a full complement of cardiovascular services including interventional cardiology. Johnston Memorial's services include diagnostic cardiac catherization.

Pulmonary Medicine. Respiratory therapy services are provided at each of the Alliance's facilities. The Center for Pulmonary Medicine at JCMC diagnoses and manages disorders of the respiratory and the pulmonary vascular systems, including emphysema and black-lung disease. A state-of-the-art metabolic laboratory assesses heart and respiratory problems. Pulmonary outreach services are provided at JCMC. Black Lung diagnostic services are provided at Norton Community Hospital.

Comprehensive Wound Care is provided at JCMC, Norton Community, and Johnston Memorial. JCMC is the home to three hyperbaric oxygen chambers and Norton Community and Johnston Memorial each have one chamber.

Women's Services. The Alliance provides specially designed women's services equipped to meet the unique health needs of women. Locations for obstetric and newborn care include The Family Birth Centers at JCMC, Franklin Woods, Indian Path, Norton Community, and Johnston Memorial. Gynecologic care is provided at each of the preceding facilities as well as Smyth County Community and Sycamore Shoals. The complement of women's services includes: routine and high-risk obstetrical care, gynecological surgery, breast disease diagnosis and treatment, fertility services, laser and microscopic surgery, plastic surgery, wellness/fitness programs, and educational sessions covering a wide spectrum of women's concerns. The Family Birth Center at JCMC includes the region's only State-designated Perinatal Center for pregnancy and newborn medical complications and a transport team to bring critically ill infants to the Niswonger Children's Hospital at JCMC.

Children's Services. The Niswonger Children's Hospital at JCMC is the only children's hospital in northeast Tennessee. More than 20 pediatric subspecialties provide specialty care through this 69 licensed bed "hospital within a hospital" and pediatric emergency department. Niswonger has met stringent criteria to become a member of the Children's Hospital Association linking providers and staff with more than 202 of the nation's leading pediatric facilities. Also located on the campus of JCMC is the region's only *Ronald McDonald House*, with the mission of meeting the support needs of pediatric patients and family members. In addition, in October 1999, the Alliance entered into a clinical affiliation with St. Jude's Children's Research Hospital to provide pediatric cancer and other catastrophic disease treatment services. On December 7, 2012, Niswonger Children's Hospital entered into a clinical affiliation with Cincinnati Children's Hospital.

Diabetes Services. The Alliance provides diabetes management programs with specialized healthcare providers able to address the needs of the diabetic patient. The diabetes services emphasizes the importance of patient education and support with both patient and family involvement in the treatment process and provides education in all aspects of diabetes management.

Rehabilitation Services. The James H. and Cecile C. Quillen Rehabilitation Hospital provides a complete range of physical rehabilitative services for the region, including specialized rehabilitative services for individuals with brain injuries, strokes and spinal cord injuries. The Alliance also provides outpatient physical, occupational, and speech therapies at eight locations for individuals with physical disabilities.

Cancer Services. The Alliance provides comprehensive cancer treatment services throughout the system with four tertiary care facilities in Johnson City, Kingsport, Abingdon, and Marion. The Regional Cancer Center at JCMC serves as a referral center and education host for students, and is the only facility within several hours travel time with specialized infrastructure capable of supporting the treatment of complex cases such as pediatric cancers and acute leukemia. The St. Jude's Children's Research Hospital, Tri-Cities Affiliate, is located on JCMC's campus. It is a collaborative effort between the Alliance, East Tennessee State University, and St. Jude's Children's Research Hospital in Memphis to provide pediatric oncology services in the region. Regional Cancer Centers at Indian Path, Johnston Memorial, and Smyth County Community provide surgical and chemotherapy treatments to patients from Northeast Tennessee and Southwest Virginia. Outpatient radiation services are provided at Regional Cancer Centers at Indian Path and Johnston Memorial. The program emphasizes the use of market-leading facility design, multi-specialty team-based care, highly trained and certified sub-specialty staff and an emphasis on patient-centered care.

Behavioral Health Services. Respond/Crisis Line provides information, assessment, and referral assistance to patients in need of psychiatric services. Services are provided at three locations. Woodridge provides inpatient care for children, adolescents, adults, and geriatric populations and outpatient services, including Intensive Outpatient Program for adults. Sycamore Shoals provides inpatient Geropsych services. Russell provides inpatient acute psychiatry and outpatient services for adults.

In addition to the services described above, the Alliance offers many other services throughout the region including emergency departments and urgent care centers, skilled nursing facilities, and the medical air transport service called *WINGs Air Rescue*.

In May 2013, the Alliance announced a clinical, strategic affiliation with Vanderbilt University Medical Center ("VUMC") in Nashville. The two organizations will collaborate clinically, with particular emphasis on cardiovascular and oncology services. As part of the affiliation agreement, VUMC and the Alliance will work together in the area of physician recruitment to facilitate access to specialists and subspecialists to serve the Northeast Tennessee/Southwest Virginia area and to develop consultative relationships among these specialists. VUMC and the Alliance will share best practices in the areas of evidence-based care models to enhance the care of patients. VUMC and the Alliance will collaborate on clinical trials that have the potential to benefit patients while making significant advances in medical research.

Medical Staff

As of May 31, 2013, there were 1,018 physicians and dentists on the Alliance's active, courtesy and consulting medical staffs. Of the 1,018 physicians on staff, 946 are board certified in their specialty. The average age of the medical staff is 49.95 years.

Medical staff appointment is available to licensed physicians, dentists, podiatrists and certain other professionals who are licensed to practice in the State of Tennessee or Virginia, as applicable, and who meet other specific requirements of the medical staff by-laws. Appointments and re-appointments are made by the Alliance Board of Directors upon the recommendations of the various medical staffs and the Alliance's administrative staff. Associate staff members are persons who have applied for active staff membership, but have been on the staff for less than two years.

The Alliance conducts a recruitment program to support the recruiting efforts of the affiliated medical staff. Recruiting assistance is provided to both private and university affiliated physicians as requested, and includes contracting and interaction with recruiting firms, receipt and screening of candidates' curriculum vitae, candidate site visit, and relocation and initial practice management assistance to the new physicians.

GOVERNANCE AND MANAGEMENT

Board of Directors

The management of the Alliance's affairs is vested in a Board of Directors consisting of not less than 9 and not more than 14 members, including the President/CEO, who serves as an ex-officio member. No more than twenty-five percent of the directors of the Board of Directors may consist of physicians. Except for the ex-officio member, directors serve for staggered three-year terms. Directors may be reappointed twice for a total of nine years on the Board before rotating off for at least one year before being reappointed. Standing committees of the Board of Directors include Executive, Finance, Governance and Corporate Audit and Compliance. Special committees may be appointed by the Chairman of the Board for specific assignments. Current officers and members of the Board of Directors and their occupations and dates of expiration of their terms are set forth below:

Name and Office Held	Business Affiliation	Term Expiration
Clem Wilkes, Jr., Chairperson	Financial Advisor, Raymond James Financial Services	2014
Joanne Gilmer, Vice Chairperson	Retired, General Shale Brick	2016
Michael Christian, Treasurer	Retired, Banker	2015
Barbara Allen, Secretary	Small Business Owner, Stowaway Storage	2015
Bob Feathers, Past-Chair	President, Workspace Interiors, Inc.	2015
Sandra Brooks, M.D.	Pathologist, Watauga Pathology Associates	2015
Jeff Farrow, M.D.	Pulmonologist, Johnson City Medical Center	2015
Tom Fowlkes	General Counsel, The United Company	2015
Linda Garceau	Dean, College of Business & Technology, East Tennessee State University	2015
David May, M.D.	Anesthesiologist, Sycamore Shoals Anesthesia Assoc.	2016
Gary Peacock	Retired, Royal Mouldings Ltd.	2014
Rick Storey	Banker, Citizens Bank	2016

Further, five community-based boards serve as advisory boards for the Alliance's Board of Directors. The community-based boards represent the communities serviced by the following facilities: (1) Sycamore Shoals, (2) Johnson County Community, (3) Russell, (4) Indian Path and (5) Franklin Woods and JCMC. Four governing boards serve the Alliance's joint-ventured facilities and include: (1) Dickenson Community, (2) Johnston Memorial, (3) Norton Community, and (4) Smyth County Community. One other governing board oversees the operations of Blue Ridge Medical Management Corporation. The bylaws of the community boards are rooted in the Alliance's bylaws and the remaining boards are distinguished through separate bylaws. The bylaws of each of the community boards provide that their boards consist of no fewer than nine and no more than 18 persons. No more than thirty-five percent of the directors of each Community Board may consist of physicians. Terms vary for the remaining boards, but are predominately staggered for three-year terms.

Management of the Corporation

The President and Chief Executive Officer, selected by the Board of Directors, manages the Alliance's administrative staff and has the authority and responsibility of system-wide direction of the Alliance's facilities, subject to policies adopted by the Board of Directors or any of its committees to which it has delegated power for such action. The principal members of the administrative staff of the Alliance are described below.

Dennis Vonderfecht (62) – President and Chief Executive Officer. Mr. Vonderfecht has served as President and CEO since January 1990. Prior to joining the Alliance, he was employed by Research Health Services System in Kansas City, Missouri, where he held the position of Regional Vice President. Mr. Vonderfecht worked for Humana, Inc. for approximately eight years in capacities such as: Administrative Specialist at Humana Hospital, Greensboro, North Carolina; Associate Administrator at Gibson General Hospital, Trenton, Tennessee; Associate Executive Director for Humana Hospital, Brandon, Florida; Associate Executive Director, Humana Hospital, Greensboro, North Carolina; Project Manager for Parkway Medical Center, Cary, North Carolina; and as Executive Director, Humana Hospital, Newnan, Georgia. Mr. Vonderfecht's undergraduate study was at Colorado State University and the University of Nebraska, where he was awarded a B.S. degree in Business Administration. He obtained two master's degrees from the University of Missouri: one in Business Administration and the other in

Hospital Administration. He also holds an honorary doctorate from Milligan College. He presently serves on the Boards of Directors of Premier, Inc., ETSU Foundation, Tennessee Hospital Association, Tennessee Business Roundtable, Tennessee Valley Corridor Inc., and the Tennessee Center for Performance Excellence. Mr. Vonderfecht currently serves as Chairman of the Board for the Tennessee Center for Performance Excellence and has previously served as Chairman of the Tennessee Hospital Association Board of Directors and Chairman of the Board of Hospital Alliance of Tennessee. Mr. Vonderfecht is a Fellow in the American College of Healthcare Executives. He has been the recipient of the Distinguished Service Award and the Meritorious Service Award from the Tennessee Hospital Association and was awarded the American College of Healthcare Executives Regent's Award. He has also been recognized with the Health Care Heroes Award, as well as the Cup of Kindness Award through the Tri-Cities Business Journal. In addition, Mr. Vonderfecht was presented with a "Leaders in Christian Service" award by Milligan College and has received recognition as an "Honorary Alumni" by East Tennessee State University. Mr. Vonderfecht has announced his intention to retire as of December 31, 2013. A search committee of the Board of Directors has been formed to find replacement candidates.

Marvin Eichorn (57) - Senior Vice President and Chief Financial Officer. Mr. Eichorn has served the Alliance since August 1998, when he joined as Senior Vice President/Regional Operations. He was named Chief Financial Officer in January 1999. As Senior Vice President/Chief Financial Officer, he is responsible for all of the financial operations and services of the Alliance as well as managed care and physician operation activities for the Alliance. Prior to joining the Alliance, he was employed by Covenant Health/Fort Sanders Health System in Knoxville, Tennessee in various positions over a 14 year period including Executive Vice President/Non-Hospital Operations and Executive Vice President/Chief Financial Officer. Mr. Eichorn is a Certified Public Accountant and is a member of various health care and finance organizations. His educational background includes a bachelor's degree in finance from the University of West Florida and a master's degree in business administration from Milligan College. In 2000, Mr. Eichorn received the Meritorious Service Award for an Executive Staff member from the Tennessee Hospital Association. He also serves on the board or key committees of various national and regional healthcare related organizations.

Candace Jennings (59) **-** Senior Vice President for Tennessee Operations. Ms. Jennings joined the Alliance in 2007 as Vice President and Chief Operating Officer for Washington County, Tennessee operations. Her current responsibilities include the strategy development and operation of the Alliance's eight Tennessee hospitals, including a critical access hospital (Johnson County Community Hospital), a children's hospital (Niswonger Children's Hospital) and a new, LEED certified hospital, Franklin Woods Community Hospital which opened in July 2010. Prior to joining Mountain States Health Alliance, she was Chief Nursing Officer for St. John's Hospital in Springfield, Illinois. As a consultant with Ernst and Young, she led organizations through transformational change specializing in organizational resizing and patient focused care. She has served as a health care leader for over 20 years in tertiary teaching hospitals in Alabama, Texas, Illinois and Tennessee. Her educational background includes bachelors and master's degrees in Nursing and a master's in Health Services Administration from the University of Alabama at Birmingham (UAB). Ms. Jennings has been a Fellow in ACHE since 2001.

Ann Fleming (65) – Senior Vice President of Regional Operations as well as the Cardiovascular, Oncology, Medicine Strategic Service Units and Outpatient Services. Since joining the Alliance in March 2007, Ms. Fleming has served as an examiner for the Tennessee Center for Performance Excellence and currently serves as a Board Member for the Senate Productivity and Quality Award and as a Board Member for the Virginia Hospital and Healthcare Association. Prior to joining the Alliance, Ms. Fleming served as the VP of Clinical Service Lines, Merrillville Hospital Administrator and as the Chief Nursing Officer at The Methodist Hospitals Inc., Gary and Merrillville, Indiana. As part of her work there, she launched the Cardiovascular, Oncology, Rehabilitation/Ortho/Neuro, Women's and Children Service Lines. Ms. Fleming also served as Rehabilitation Consultant at Porter Memorial Hospital, Valparaiso, Indiana, and served as an operating room nurse with the 475th MASH during Operation Desert Storm in Saudi Arabia and Iraq. She received a bachelor's degree in Nursing from the University of Kentucky and a master's degree in Public Administration from Kentucky State University. Ms. Fleming is a member of the American College of Health Care Executives, the Association of Nursing Executives and the Medical Group Management Association. She received the Army Commendation Medal in 1991. Ms. Fleming is a Registered Nurse and currently is licensed in Tennessee, Kentucky, Virginia and Indiana.

Morris Seligman (57) – Senior Vice President and Chief Medical Officer. Dr. Seligman joined the Alliance in January 2010, and has responsibility on a system-wide basis for Medical Staff Services, Graduate

Medical Education, Continuing Medical Education, Patient Resource Management (case management), Clinical Research, Accreditation, Infection Prevention, Patient Safety, Quality, Information Systems, Telecommunications, and Clinical Informatics. Prior to joining the Alliance, Dr. Seligman was employed by Trinity Regional Health System Quad Cities-Senior Affiliate of Iowa Health System, Illinois and Iowa, where he served as the Chief Medical Officer and Vice President for Physician Services. Dr. Seligman is a diplomat of the American Board of Quality Assurance Utilization Review Physicians, a Fellow of the American Institute of Healthcare Quality certified in Healthcare Quality Management (CHCQM), a Fellow of the American College of Physicians (FACP), a Fellow of the American College of Healthcare Executives (FACHE), and a Certified Physician Executive (CPE). Dr. Seligman also has a two year degree in Engineering Sciences. Dr. Seligman is a board certified internist by training and has practiced Internal Medicine, Emergency Medicine and Occupational Medicine. Dr. Seligman received his MD from the University of Missouri-Columbia and his BSBA/MBA from Washington University. Dr. Seligman also earned his CPA Certificate and previously worked at Arthur Andersen & Co.

SERVICE AREA, MARKET SHARE AND COMPETITION

Patient Origin

The Alliance operates hospital facilities located in the Counties of Washington, Sullivan, Carter, and Johnson in the northeastern region of Tennessee. In the southwestern region of Virginia, the Alliance operates facilities in the Counties of Smyth, Wise, Dickenson, Russell and Washington, and in the City of Norton. The core service area for the Alliance (the "Core Service Area") consists of Washington, Sullivan, Carter, Johnson, Greene, Hawkins, and Unicoi Counties in Tennessee and Smyth, Russell, Wise (including the City of Norton), Dickenson, Scott, and Washington Counties (including Bristol City) in Virginia. Approximately 93.2% of the Alliance's discharges originated from the Core Service Area for the fiscal year ended June 30, 2012. The patient origin analysis from all service areas (i.e., both the Core Service Area and the Non-Core Service Area, as defined below) as a percent of the Alliance's discharges for fiscal years 2009, 2010, 2011 and 2012 is presented in the following table:

Alliance Facilities Patient Origin
By Fiscal Year (June 30)

	2009		2010		2011		2012	
	Discharges	Percent	Discharges	Percent	Discharges	Percent	Discharges	Percent
Core Counties								
Washington, TN	16,692	26.6%	16,351	26.8%	16,920	27.4%	16,724	26.8%
Sullivan, TN	8,044	12.8	7,795	12.8	7,732	12.5	7,971	12.8
Carter, TN	6,489	10.3	6,486	10.6	6,762	10.9	6,738	10.8
Wise, VA [1]	4,601	7.3	4,414	7.2	4,224	6.8	4,286	6.9
Greene, TN	2,757	4.4	2,672	4.4	2,547	4.1	2,450	3.9
Smyth, VA	3,825	6.1	3,673	6.0	3,707	6.0	3,582	5.7
Unicoi, TN	2,157	3.4	1,904	3.1	2,094	3.4	2,092	3.4
Johnson, TN	1,927	3.1	1,972	3.2	1,914	3.1	2,052	3.3
Hawkins, TN	1,675	2.7	1,546	2.5	1,539	2.5	1,520	2.4
Russell, VA	3,435	5.5	3,378	5.5	3,134	5.1	3,183	5.1
Dickenson, VA	1,330	2.1	1,456	2.4	1,479	2.4	1,407	2.3
Scott, VA	982	1.6	925	1.5	943	1.5	963	1.6
Washington, VA [(2)]	4,574	7.3	4,248	7.0	4,595	7.4	5,109	8.2
Core Subtotal	58,488	93.2%	56,820	93.2%	57,590	93.2%	58,077	93.2%
Non-Core Subtotal	3,133	5.0%	3,030	5.0%	2,874	4.6%	3,216	5.2%
Other Areas Subtotal	1,104	1.8%	1,070	1.8%	1,360	2.2%	1,024	1.6%
Total	62,725	100.0%	60,920	100.0%	61,824	100.0%	62,317	100.0%

Source: The Alliance – Fiscal year data excludes normal newborns. Acquired facilities have been included from date of acquisition forward.
(1) Includes City of Norton, Virginia, data.
(2) Includes City of Bristol, Virginia, data.

The Alliance has a strong extended market encompassing numerous counties in northeastern Tennessee, western North Carolina, southwestern Virginia, and southeastern Kentucky (the "Non-Core Service Area" and, together with the Core Service Area, the "Service Area"), as shown in the map in "Service Areas and Facility Locations" below. As the table above shows, approximately 5.2% of discharges for the fiscal year ended June 30, 2012, were from the Non-Core Service Area, and approximately 1.6% of discharges were from beyond the Service Area. With the addition of Smyth County Community, Norton Community, Dickenson Community, Russell, and Johnston Memorial, the percentage of discharges from Virginia has increased. The Alliance is also a referral center for numerous advanced services such as high-risk obstetrics, perinatology, neonatology, cardiology, oncology and medical surgeries (including laparoscopies), and therefore serves many patients from outside the Service Area.

Service Area Facilities

The principal competitor of the Alliance in the Core Service Area is Wellmont Health System ("Wellmont"), which operates eight hospitals within the Alliance's Core Service Area: Holston Valley Medical Center, in Kingsport, Tennessee; Bristol Regional Medical Center, in Bristol, Tennessee; Hawkins County Memorial Hospital, in Rogersville, Tennessee; Lonesome Pine Hospital, in Big Stone Gap, Virginia; Mountain View Regional Medical Center, in Norton, Virginia; Hancock County Hospital, in Sneedville, Tennessee; Takoma Regional Hospital, in Greeneville, Tennessee; and Lee Regional Medical Center, in Pennington Gap, Virginia. Certain operating statistics for the facilities of the Alliance and Wellmont located within Tennessee are set forth below:

Core Service Area - Tennessee Hospitals
Facility Information and Selected Utilization Data – Fiscal 2011

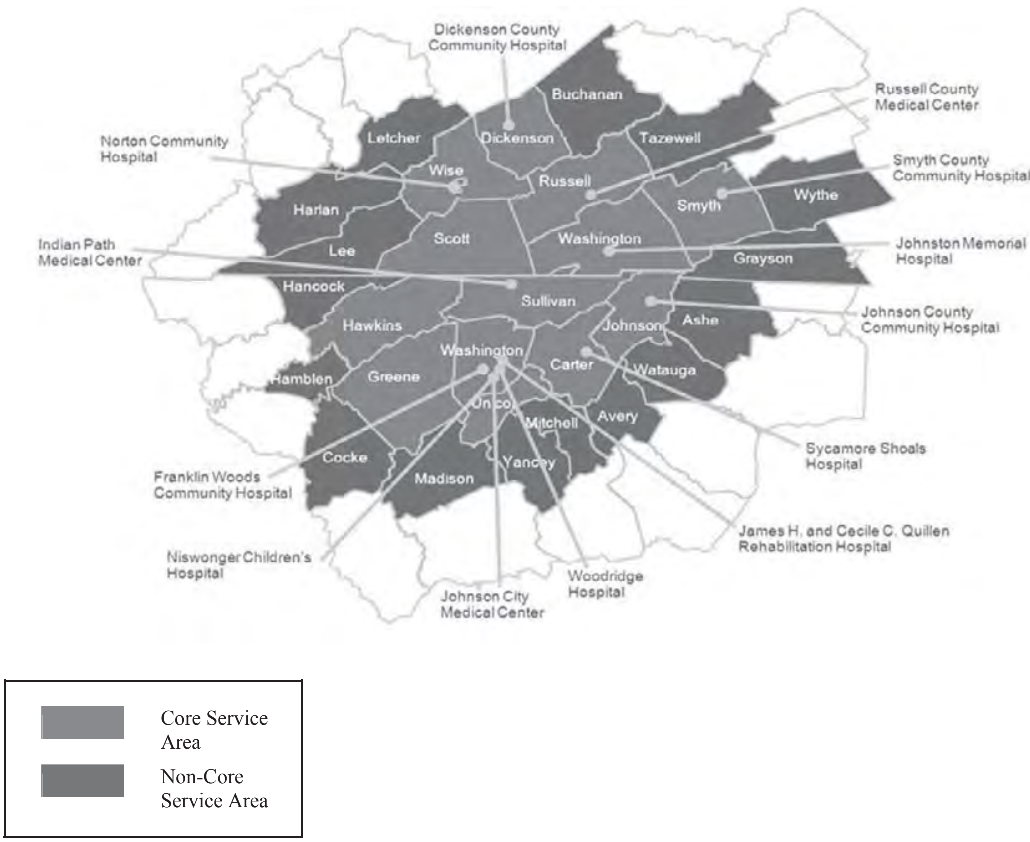
	County in Tennessee	Licensed Beds	Staffed Beds	Total Discharges	Total Patient Days	Average Daily Census
Mountain States Health Alliance						
Johnson City Medical Center	Washington	514	514	26,111	133,256	365
Quillen Rehabilitation Hospital	Washington	60	60	654	8,453	23
Woodridge Hospital	Washington	84	84	3,412	19,827	54
Franklin Woods Community Hospital	Washington	80	80	4,431	24,785	68
Indian Path Medical Center	Sullivan	261	189	6,823	29,534	81
Sycamore Shoals Hospital	Carter	121	79	3,640	15,299	42
Johnson County Community Hospital	Johnson	2	2	20	43	0
MSHA Subtotal		**1,122**	**1,008**	**45,091**	**231,197**	**633**
Wellmont Health System						
Holston Valley Medical Center	Sullivan	505	339	19,931	91,756	251
Bristol Regional Medical Center	Sullivan	312	261	15,293	66,214	181
Hawkins County Memorial Hospital	Hawkins	50	46	1,603	5,153	14
Hancock County Hospital	Hancock	10	10	245	808	2
Takoma Regional Hospital	Greene	100	100	2,494	11,508	32
Wellmont Subtotal		**977**	**756**	**39,566**	**175,439**	**480**
Other Core Service Area Facilities						
Laughlin Memorial Hospital	Greene	140	140	3,813	16,131	44
Healthsouth Rehabilitation Hospital	Sullivan	50	50	947	14,500	40
Unicoi County Memorial Hospital	Unicoi	48	15	1,214	4,568	13
Other Core Service Area Facilities		**238**	**205**	**5,974**	**35,199**	**97**
Core Service Area Total		**2,337**	**1,969**	**90,631**	**441,835**	**1,210**

Source: 2011 Tennessee Joint Annual Reports.

Service Areas and Facility Locations

The Alliance's Core and Non-Core Service Areas are depicted in the map set forth below:

Mountain States Health Alliance
Service Area



Market Share

Market share represents the proportion of service area residents discharged from each of the service area hospitals. Market share by hospital for the defined service area was calculated using data published by the Tennessee Hospital Association, the Virginia Hospital and Healthcare Association and the North Carolina Hospital Association. Hospital specific discharges are divided by service area specific discharges to estimate market share for each of the service area hospitals.

The Alliance maintains the largest market share of its core service area, capturing over 52.6% of the market for the calendar year ended 2011. Wellmont's facilities had a market share for the same period of approximately 37.0%. The following tables present calendar years 2007, 2008, 2009, 2010 and 2011, Core Service Area and total Service Area market share information for facilities currently owned or controlled by the Alliance and Wellmont.

Core Service Area Market Share Summary

System	Hospital Name	Calendar 2007 Discharges	Calendar 2007 % of Total	Calendar 2008 Discharges	Calendar 2008 % of Total	Calendar 2009 Discharges	Calendar 2009 % of Total	Calendar 2010 Discharges	Calendar 2010 % of Total	Calendar 2011 Discharges	Calendar 2011 % of Total
MSHA	Johnson City Medical Center	24,427	24.3%	25,095	24.9%	25,168	25.9%	25,048	25.8%	23,996	24.7%
	Indian Path Medical Center	5,340	5.3	5,867	5.8	5,526	5.7	6,035	6.2	5,970	6.1
	Sycamore Shoals Hospital	4,031	4.0	3,724	3.7	3,206	3.3	3,225	3.3	3,556	3.7
	Franklin Woods Community Hospital	3,106	3.1	2,655	2.6	2,384	2.5	2,683	2.8	3,920	4.0
	Johnson County Community Hospital	40	0.0	44	0.0	31	0.0	24	0.0	26	0.0
	Smyth County Community Hospital	2,139	2.1	2,113	2.1	2,164	2.2	1,958	2.0	1,664	1.7
	Norton Community Hospital	4,793	4.8	4,139	4.1	3,980	4.1	3,636	3.8	3,696	3.8
	Dickenson Community Hospital	757	0.8	366	0.4	7	0.0	2	0.0	1	0.0
	Russell County Medical Center	2,270	2.3	2,242	2.2	2,298	2.4	2,099	2.2	1,993	2.0
	Johnston Memorial Hospital	4,979	4.9	5,656	5.6	5,496	5.6	5,534	5.7	6,400	6.6
MSHA Total		51,882	51.5%	51,901	51.4%	50,260	51.7%	50,244	51.8%	51,222	52.6%
Wellmont	Wellmont Holston Valley Medical Center	16,556	16.4	16,057	15.9	16,260	16.7	16,724	17.3	16,308	16.8
	Wellmont Bristol Regional Medical Center	12,288	12.2	12,676	12.6	12,455	12.8	12,831	13.2	12,827	13.2
	Wellmont Lonesome Pine Hospital	2,745	2.7	2,656	2.6	2,181	2.2	2,005	2.1	1,785	1.8
	Wellmont Hawkins County Memorial Hospital	1,699	1.7	1,778	1.8	1,639	1.7	1,521	1.6	1,419	1.5
	Wellmont Hancock County Hospital	11	0.0	9	0.0	10	0.0	10	0.0	9	0.0
	Takoma Regional Hospital	2,227	2.2	2,320	2.3	2,093	2.2	1,827	1.9	1,939	2.0
	Lee Regional Medical Center	136	0.1	151	0.1	153	0.2	146	0.2	127	0.1
	Mountain View Regional Medical Center	1,880	1.9	2,058	2.0	1,597	1.6	1,601	1.7	1,605	1.6
Wellmont Total		37,542	37.3%	37,705	37.4%	36,388	37.4%	36,665	37.8%	36,019	37.0%
All Other		11,271	11.2%	11,272	11.2%	10,628	10.9%	10,022	10.3%	10,076	10.4%
Grand Total		100,695	100.0%	100,878	100.0%	97,276	100.0%	96,931	100.0%	97,317	100.0%

Source: Tennessee Hospital Association, the Virginia Hospital and Healthcare Association, and the North Carolina Hospital Association.
Notes:
Information based on calendar year and excludes normal newborns, psych, substance abuse, and rehab.
Acquired facilities are fully included retrospectively.
JCMC, Quillen, and Woodridge are reported together as "Johnson City Medical Center" because they operate under a single license.
Franklin Woods reflects historical values for North Side Hospital and Johnson City Specialty Hospital prior to June 2010.

Total Service Area Market Share Summary

System	Hospital Name	Calendar 2007 Discharges	Calendar 2007 % of Total	Calendar 2008 Discharges	Calendar 2008 % of Total	Calendar 2009 Discharges	Calendar 2009 % of Total	Calendar 2010 Discharges	Calendar 2010 % of Total	Calendar 2011 Discharges	Calendar 2011 % of Total
MSHA	Johnson City Medical Center	25,677	17.2%	26,404	17.6%	26,472	18.2%	26,259	18.3%	25,213	17.6%
	Indian Path Medical Center	5,547	3.7	6,091	4.1	5,711	3.9	6,242	4.4	6,162	4.3
	Sycamore Shoals Hospital	4,048	2.7	3,736	2.5	3,214	2.2	3,239	2.3	3,576	2.5
	Franklin Woods Community Hospital	3,133	2.1	2,686	1.8	2,398	1.7	2,714	1.9	3,941	2.8
	Johnson County Community Hospital	40	0.0	46	0.0	31	0.0	24	0.0	26	0.0
	Smyth County Community Hospital	2,417	1.6	2,348	1.6	2,399	1.7	2,197	1.5	1,855	1.3
	Norton Community Hospital	5,085	3.4	4,337	2.9	4,174	2.9	3,807	2.7	3,887	2.7
	Dickenson Community Hospital	765	0.5	369	0.2	7	0.0	2	0.0	1	0.0
	Russell County Medical Center	2,563	1.7	2,478	1.7	2,587	1.8	2,368	1.7	2,237	1.6
	Johnston Memorial Hospital	5,342	3.6	6,094	4.1	5,978	4.1	5,928	4.1	6,820	4.8
MSHA Total		54,617	36.5	54,589	36.4	52,971	36.5	52,780	36.8	53,718	37.6
Wellmont	Wellmont Holston Valley Medical Center	18,504	12.4	17,984	12.0	18,155	12.5	18,723	13.1	18,453	12.9
	Wellmont Bristol Regional Medical Center	13,160	8.8	13,831	9.2	13,696	9.4	14,102	9.8	14,180	9.9
	Wellmont Lonesome Pine Hospital	3,377	2.3	3,266	2.2	2,681	1.8	2,421	1.7	2,215	1.6
	Wellmont Hawkins County Memorial Hospital	1,808	1.2	1,866	1.2	1,704	1.2	1,597	1.1	1,487	1.0
	Wellmont Hancock County Hospital	375	0.3	360	0.2	303	0.2	243	0.2	202	0.1
	Takoma Regional Hospital	2,358	1.6	2,441	1.6	2,219	1.5	1,935	1.3	2,056	1.4
	Lee Regional Medical Center	2,768	1.9	2,509	1.7	2,370	1.6	2,398	1.7	2,172	1.5
	Mountain View Regional Medical Center	1,977	1.3	2,132	1.4	1,652	1.1	1,661	1.2	1,661	1.2
Wellmont Total		44,327	29.6%	44,389	29.6%	42,780	29.5%	43,080	30.0%	42,426	29.6%
All Other		50,651	33.9%	51,003	34.0%	49,314	34.0%	47,553	33.2%	46,974	32.8%
Grand Total		149,595	100.0%	149,981	100.0%	145,065	100.0%	143,413	100.0%	143,118	100.0%

Source: Tennessee Hospital Association, the Virginia Hospital and Healthcare Association, and the North Carolina Hospital Association.
Notes:
Information based on calendar year and excludes normal newborns, psych, substance abuse, and rehab.
Acquired facilities are fully included retrospectively .JCMC, Quillen, and Woodridge are reported together as “Johnson City Medical Center” because they operate under a single license.
Franklin Woods reflects historical values for North Side Hospital and Johnson City Specialty Hospital prior to June 2010.

Demographic and Socio-Economic Characteristics of the Service Area

The following table provides information on major employers in the region:

Major Employers in the PSA/SSA

Rank	Employer	Headquarters	Estimated Employees	Industry
1	K-VA-T Food Stores	Abingdon, VA	13,033	Retail Supermarkets
2	Mountain States Health Alliance	Johnson City, TN	9,130	Health Care
3	Eastman Chemical Company	Kingsport, TN	6,675	Manufacturing
4	Wellmont Health System	Kingsport, TN	4,849	Health Care
5	East Tennessee State University	Johnson City, TN	2,280	Higher Education
6	James H. Quillen VA Medical Center	Mountain Home, TN	2,000	Govt Health Care Facility
7	Citi Cards	Gray, TN	1,700	Retail/Call Center
8	Sullivan County Dept. of Education	Blountville, TN	1,646	Education
9	Advanced Call Center Technologies	Jonesborough, TN	1,358	Call Center
10	Hawkins County Schools	Rogersville, TN	1,300	Education
11	Washington County Dept. of Education	Jonesborough, TN	1,200	Education
12	A.O. Smith Water Products Company	Johnson City, TN	1,081	Manufacturing
13	Kingsport City Schools	Kingsport, TN	1,050	Education
14	Frontier Health	Gray, TN	1,007	Health Care
15	DTR Tennessee, Inc.	Midway, TN	1,000	Manufacturing

Source: The Business Journal of Tri-Cities/Virginia, Book of Lists, 2012.

SOURCES OF REVENUE

Patient service payments are made to the Alliance by commercial insurance carriers, the federal government under the Medicare program, the State of Tennessee under the TennCare program and surrounding states under their Medicaid programs. The table below shows the percentage of gross patient revenues received by the Alliance from each program and from private pay.

Gross Patient Revenues by Source of Payment (Payor Mix)

	Audited Fiscal Years Ended June 30				FY13 As of March 31
	2009	2010	2011	2012	2013
Medicare	42.0%	43.4%	43.7%	44.1%	44.3%
TennCare/Medicaid	15.0	14.2	13.7	14.1	14.1
Managed Care/ Commercial and Other	35.7	34.2	34.2	33.3	32.4
Private Pay	7.3	8.2	8.4	8.5	9.2
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: The Alliance.

Medicaid and Medicare

Approximately 44% and 14% of the gross patient service charges of the Alliance for the fiscal year ended June 30, 2012, were derived from the Medicare and TennCare/Medicaid programs, respectively. Medicare provides certain health care benefits to beneficiaries who generally are 65 years of age and older, are long term disabled, or qualify for the end stage renal disease ("ESRD") program. Medicare Part A covers, among other things, inpatient hospital services, skilled nursing care, hospice and some home health care. Medicare Part B covers, among other things, physician services, outpatient hospital services and some supplies. TennCare/Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid.

TennCare/Medicaid

The State of Tennessee transferred a portion of its Medicaid program to a managed care program ("TennCare") under a Section 1115 Waiver effective January 1, 1994. The long term care and ESRD Medicaid programs were not transferred to TennCare. The TennCare program also covers a number of uninsured non-Medicaid beneficiaries.

Medicare

Medicare pays acute care hospitals for most services provided to inpatients under a payment system known as the Prospective Payment System ("PPS"). Separate PPS payments are made for inpatient operating costs and inpatient capital costs.

Inpatient Operating Costs. Under PPS, acute care hospitals are reimbursed for inpatient operating costs on a per-discharge basis at fixed rates established for identified Diagnosis Related Groups ("DRGs"). DRG classification is based on the diagnosis at discharge and major procedures and other factors for each particular Medicare patient. The amount to be paid for each DRG is established prospectively by the Centers for Medicare and Medicaid Services ("CMS"), an agency of the United States Department of Health and Human Services ("HHS"), and is not related to a hospital's actual costs. For certain Medicare beneficiaries who have unusually costly hospital stays (referred to as "outliers"), CMS will provide additional payments above those specified for the DRG.

The prospective payment rate is updated annually based upon the hospital "market basket" index, which generally measures changes in the cost of providing health care services. Future adjustments are subject to change by Congress. There is no assurance that these or any future increases in the prospective payment rates will keep pace with the increases in the cost of providing hospital services.

CMS reviews and publishes changes in the DRG classification system at least annually. This process is intended to ensure that each DRG is clinically coherent and represents an acceptable range of resource consumption. There is no assurance that the Alliance will be paid amounts which will reflect adequately changes in the cost of providing health care or in the cost of health care technology being made available to patients.

Costs of Medical Education. Medicare pays for certain direct and indirect costs associated with medical education. Payment for the indirect costs of medical education will be made as an adjustment to the federal rate for capital-related costs during the transition to PPS for inpatient capital-related costs. The indirect medical education adjustment for capital-related costs is based in part on the ratio of a hospital's number of full-time equivalent ("FTE") residents to its average daily census. Medicare also adjusts the inpatient operating PPS payment for indirect costs of medical education. This adjustment is based in part on the ratio of FTE residents to beds. Payment for direct medical education is based on a per resident rate adjusted by inflation and the number of current-year reimbursable resident positions.

Disproportionate Share. Section 402 of the Medicare Prescription Drug, Improvement, and Modernization Act ("MMA") provides for payments to hospitals serving a large number of low-income patients, which qualifies them for a Medicare Disproportionate Share ("DSH") payment adjustment. Payment is based on the SSI% plus Medicaid Eligible Patient Days to Total Patient Days. There is no assurance in the future that the Alliance will be paid amounts to adequately offset the additional costs of providing services to low income patients to Acute and Rehabilitation services. A rule recently proposed by CMS indicates that the DSH will be based on 25% of the current calculation (SSI% + Medicaid Eligible Patient Days to Total) and 75% (88.8% of the uncompensated care pool x Medicaid Eligible Days + SSI Days).

Costs of Outpatient Services. Ambulatory payment classifications ("APCs") form the basis for outpatient PPS. Services in each APC are similar clinically and with respect to the resources necessary to provide the services.

Generally, the primary classification variable under the APC system is the procedure performed rather than the patient's diagnosis, as is the case with the DRG system. Each APC is assigned a payment rate based on median (or, if the Secretary of HHS so chooses, mean) hospital costs for procedures performed, weighted by procedure volume. Beneficiary coinsurance amounts are established for each APC based on 20 percent of the national median of charges for APC services. The APC payment and beneficiary's coinsurance amounts for outpatient services will be adjusted to reflect geographic wage variations and other factors determined to be necessary by the Secretary of HHS. Annual payment updates are based on the hospital market basket index. As with inpatient hospital services, there is no assurance that future increases in the prospective payment rates will reflect adequately the changes in the costs of providing outpatient services.

Costs of Inpatient Rehabilitation Facilities (IRF). Under IRF PPS, Federal rates are adjusted to reflect patient case mix, resource intensity associated with the patients clinical condition, and facility characteristics. Cases are grouped into case-mix groups (CMGs) and are further classified into four tiers driven by conditions that are secondary to the principal diagnosis. Rates are paid to reflect all costs of furnishing IRF services for routine, ancillary, and capital. There is no assurance that the Alliance will be paid amounts that will sufficiently match all costs associated with care.

Costs of Psychiatric Facilities (IPF). Under the IPF PPS, services are reimbursed under Federal Per Diem rates to include Operating and Capital costs. Payment is based on geographic factors, patient characteristics (DRG, age, length of stay and presence of specified comorbidities), facility characteristics, services received in a qualified Emergency Department and Electroconvulsive Therapy.

Costs of Skilled Nursing Facilities. Medicare reimbursements for skilled nursing facility ("SNF") stays are also based on a prospective payment system that requires "bundling" of virtually all SNF services, similar to the current practice for hospital inpatient services. A SNF therefore is responsible for providing or arranging to provide all Medicare services (subject to certain exceptions) needed by a SNF patient, and could potentially receive less than it costs the SNF to provide or arrange to provide those services. Accordingly, there can be no assurance that the aggregate amount of payments under SNF PPS will be sufficient to cover all of the Alliance's actual costs of providing SNF services to Medicare beneficiaries.

Physician Services. Physicians are reimbursed under Medicare based on their professional services according to the lesser of the actual charge or the amount determined from a resource-based relative value scale (RBRVS) fee schedule. The fee schedule is subject to update by the Secretary of HHS and Congress on an annual basis.

Electronic Health Records (EHR) Costs. The American Recovery Act of 2009 provides for incentive payments for Medicare and Medicaid eligible professionals and hospitals to purchase and implement meaningful use certified EHR technology. Payments provide an incentive for the "meaningful use" of certified EHR technology and to achieve health care and efficiency goals. The incentive payment will be paid out over a period of five years, which offsets the costs of purchase and implementation of the products. There is no indication that future rule-making will extend payments beyond the five years.

Audits, Exclusions, Fines and Enforcement Action. Hospitals participating in Medicare are subject to audits and retroactive audit adjustments by a Medicare Audit Contractor under the Medicare program. From an audit, a Medicare Audit Contractor may conclude, for example, that a patient has been discharged under an incorrect DRG, that services may not have been provided under the direct supervision of a physician (to the extent so required), that a patient should not have been characterized as an inpatient, that certain services provided prior to an admission as an inpatient should not have been billed as outpatient services or that certain required procedures or processes were not satisfied. As a consequence, payments may be retroactively disallowed. Under certain circumstances, payments made may be determined to have been made as a consequence of improper claims subject to the federal False Claims Act or other federal statutes, subjecting the hospital to civil or criminal sanctions. Generally, the Alliance maintains limited reserves for anticipated or proposed audit adjustments which are likely to be contested. Nevertheless, such adjustments may exceed such reserves and may be substantial. Medicare regulations also provide for withholding Medicare payment in certain circumstances, and such withholdings could have a substantial adverse effect on the financial condition of the Alliance.

Management of the Alliance is not aware of any situation in which reserves are inadequate or a material amount of Medicare payments is being withheld. The Alliance utilizes internal and external resources to review and audit practice compliance with policies, procedures, applicable laws and regulations. Whenever such reviews identify practice deviation from policies, procedures, applicable rules and regulations, management is obligated to refund any overpayments as part of the Alliance's continuous improvement processes. Currently, management is unaware of any deviations that may have a material adverse effect on the results of the operations or financial condition of the Alliance.

Commercial Managed Care and Other

The Alliance contracts with certain private third party payors. Contractual agreements with these payors include reimbursement arrangements such as discounted charges, per diem amounts and capitated payments. The Alliance actively manages these contracts and negotiates terms that are in the best interest of the Alliance and its patients. While not participating in all commercial contracts, the Alliance participates in the vast majority of contracts covering the population of its primary service area.

Additionally, the Alliance treats patients with no insurance coverage. Those meeting certain income requirements are treated at no cost to the patient. Those not qualifying for this classification are classified as "self-pay" and reimburse the Alliance privately for the services rendered.

HISTORICAL UTILIZATION INFORMATION

The table below provides historic system-wide patient utilization data for the Alliance for the fiscal years ended June 30, 2009 through June 30, 2012 and the nine months ended March 31, 2013. The number reflects the inclusion of the following facilities as of the following dates: Russell – January 31, 2008, and Johnston Memorial – April 1, 2009.

					As of March 31,	
	2009	**2010**	**2011**	**2012**	**2012**	**2013**
Occupancy Rate (licensed)	45%	46%	47%	48%	49%	50%
Patient Days	283,555	291,986	288,167	292,910	221,237	211,695
Admissions	57,127	60,102	61,035	61,154	46,165	44,080
Average Daily Census	777	800	789	800	804	773
Avg Length of Stay (days)	5.0	4.9	4.7	4.8	4.8	4.8
Outpatient Visits	1,511,699	1,604,036	1,546,325	1,590,307	1,227,951	1,243,180
ER Visits	219,983	250,942	242,677	246,821	183,660	189,064
Surgical Cases	38,812	39,313	38,521	36,971	28,109	27,309
Births	4,371	4,684	4,511	4,505	3,367	3,347
Newborn Days	8,569	9,112	9,287	9,116	6,910	6,561
Licensed Beds	1,841	1,789	1,749	1,623	1,623	1,623

Source: The Alliance.

CONDENSED SUMMARY OF REVENUE AND EXPENSES; FINANCIAL STATEMENTS

The following Condensed Summary of Revenue and Expenses (the "Condensed Summary") for each of the five Fiscal Years ended June 30, 2008 through June 30, 2012, is derived from the Alliance's audited financial statements for those Fiscal Years. The annual financial statements were audited by Pershing Yoakley & Associates, P.C. The financial information for the nine month period ended March 31, 2013, is unaudited and reflects, in the opinion of the Alliance, all adjustments necessary to summarize fairly the results for such period on a basis consistent with that used in preparing the annual financial statements for the years ended June 30, 2008 through June 30, 2012. The financial statements include the assets and liabilities and reflect the revenue and expenses of the Alliance and all consolidated entities, including those that are not Obligated Issuers.

The Condensed Summary as well as the audited financial statements included in Appendix B and the unaudited financial statements included as Appendix C are for all entities consolidated with the Alliance for accounting purposes (the "Consolidated Entities") and therefore reflect the assets, liabilities, revenues and expenses of entities that are not Obligated Issuers (see "THE ALLIANCE" in the front half of this Official Statement). For the fiscal year ended June 30, 2012, the Obligated Issuers accounted for approximately 91% of the total assets and 82% of the total revenue of the Consolidated Entities.

The following Condensed Summary of Consolidated Revenue and Expenses should be read in conjunction with the audited financial statements and notes contained in Appendix B hereto.

Condensed Summary of Revenue and Expenses

	Audited Fiscal Years Ended June 30 (In Thousands) 2008	2009	2010	2011	Audited 2012[8]	(Unaudited) Nine Months Ended March 31, 2012 (In Thousands) 2013	(Unaudited) Nine Months Ended March 31, 2013 (In Thousands)
Revenues:							
Net patient service revenue	$726,542	$822,898	$928,270	$945,875	$952,133	$713,597	$706,849
Other revenue	16,098	17,046	16,009	24,868	39,407	20,991	36,530
Total Revenue, Gains and Support	742,640	839,944	944,279	970,743	991,540	734,588	743,379
Expenses:							
Operating expenses	633,842	719,193	806,379	815,687	862,007	644,858	651,556
Depreciation and Amortization	60,048	68,523	81,559	90,058	75,305	55,858	58,210
Interest and Taxes	44,581	45,225	42,264	44,153	45,903	35,446	32,404
Total Expenses	738,471	832,941	930,202	949,898	983,215	736,162	742,170
Operating Income (loss)	4,169	7,003	14,077	20,845	8,325	(1,574)	1,209
Net non-operating gains (losses)[1]	(74,343)[2]	(89,683)[3]	30,598[4]	65,817[5]	19,651[6]	19,534[7]	44,780[8]
Excess of Revenue, Gains and Support Over Expenses and Losses	$ (70,174)	$ (82,680)	$ 44,675	$ 86,662	$ 27,976	$ 17,960	$ 45,988

Source: The Alliance.

(1) Net non-operating gains and losses include the change in fair value of derivatives and realized and unrealized gains and losses on investments.

(2) Includes $20.6 million of unrealized losses on derivatives, and $57.7 million loss on early extinguishment of debt and $33.4 million of unrealized losses on investments.

(3) Includes $42.1 million of unrealized losses on derivatives and $62.6 million of unrealized losses on investments.

(4) Includes $8.6 million of unrealized losses on derivatives, and $15.0 million of unrealized gains on investments.

(5) Includes $23.0 million of unrealized gains on derivatives and $22.2 million of unrealized gains on investments.

(6) Includes $6.2 million of unrealized losses on derivatives and $2.9 million of unrealized losses on investments.

(7) Includes $2.022 million of unrealized losses on derivatives and $2.757 million of unrealized gains on investments.

(8) Includes $11.4 million of unrealized gains on derivatives and $15.0 million of unrealized gains on investments.

(9) In Fiscal 2012, the Alliance early adopted Financial Accounting Standards Board Update 2011-07, which requires reclassification of bad debt expense from an operating expense to a deduction from patient service revenue. For 2012, bad debt of $7.057 million is classified as a deduction from net revenue and $6.174 million for 2011, for all years prior to 2011, bad debt is classified as an operating expense. In Fiscal 2012, revenue of $5.611 million related to durable medical equipment and retail pharmacy is included in other revenue and $8.205 million for 2011. Prior to 2011, this revenue was included in net patient service revenues.

TRENDS IN UNRESTRICTED LIQUIDITY AND LEVERAGE

The following table provides information on unrestricted liquidity and leverage for the fiscal years ended June 30, 2008 through June 30, 2012, and the nine months ended March 31, 2013.

	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Unaudited Nine months ended March 31, 2013
Total Unrestricted Cash ($ in Thousands)	$466,478	$515,066	$551,608	$592,537	$531,151	$575,966
Total Days' Cash on Hand	246	249	240	252	214	231
Unrestricted Net Assets ($ in Thousands)	$349,081	$272,049	$317,433	$400,395	$436,388	$480,238
Net Long Term Debt to Capitalization[(1)]	68.0%[(2)]	74.7%	71.2%	67.5%	65.4%	67.6%

(1) For purposes of calculating the ratio, Net Long-Term Debt is determined net of debt service reserve funds and moneys held in principal and interest funds.

(2) The increase in Net Long Term Debt to Capitalization in Fiscal Year 2008 was due in part to the $57.7 million loss on early extinguishment of debt. The Net Long Term Debt to Capitalization, excluding the loss on early extinguishment of debt, was 65.1%.

MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE

Overview

The Alliance has maintained a positive operating income for each of the last six fiscal years, reflecting rises in net patient service revenues that have generally kept pace with increases in expenses. However, non-operating losses from derivatives and other investments resulted in deficits of revenue, gains, and support over expenses for Fiscal 2008 and 2009. The losses from derivatives are discussed further below. The losses from other investments resulted from losses in market value reflecting primarily the general market decline in the value of securities in the Alliance's investment portfolio. Beginning in Fiscal 2007, operating income or losses for recent acquisitions is included (Fiscal 2008: Norton/Dickenson – 8 months and Russell – 5 months, Fiscal 2009: Johnston Memorial – 3 months).

Fiscal 2011

Operating Income for Fiscal 2011 was $20.845 million compared with $14.077 million for the same period in Fiscal 2010. The Operating Margin for Fiscal 2011 was 1.9%, compared with 1.5% for the same period in Fiscal 2010. Moreover, net non-operating gains of $65.817 million, reflecting primarily $20.600 million of income realized from investments, $22.168 million of unrealized income from investments, and $23.049 million in gains derived from interest rate swaps and derivatives, produced an $86.662 million excess of revenue, gains and support over expenses.

Fiscal 2012

Operating Income for Fiscal 2012 was $8.325 million compared with $20.845 million for the same period in Fiscal 2011. The Operating Margin for Fiscal 2012 was 0.8%, compared with 1.9% for the same period in Fiscal 2011. Net non-operating gains of $19.651 million, reflecting primarily $28.733 million of income realized from investments, $2.884 million of unrealized losses from investments, and $6.198 million in losses derived from interest rate swaps and derivatives, produced a $27.976 million excess of revenue, gains and support over expenses. The decrease in operating margin was due to a decline in surgical admissions and an increase in operating expenses. The increase in operating expenses was mainly due to increases in physician salaries and fees.

Nine Months Ended March 31, 2013

For the first nine months of fiscal year 2013, the Alliance had total revenue of $743.4 million, compared to $734.6 million for the first nine months of fiscal year 2012. Operating expenses for the first nine months of this fiscal year were $742.2 million, compared to $736.2 million for the first nine months of last fiscal year, resulting in an operating gain of $1.2 million, compared to a loss of $1.6 million for the same period in the prior year. Non-operating gains were $44.8 million for the first nine months of the current fiscal year, including $11.4 million of unrealized gains on derivatives, compared to non-operating gains of $19.5 million for the first nine months of fiscal year 2012, resulting in an Excess of Revenue, Gains and Support over Expenses and Losses of $46.0 million, compared to $18.0 million for the same nine month period of fiscal year 2012.

Interest Rate Swaps and Derivatives

The Alliance has utilized several forms of derivative financial instruments, including interest rate swaps, constant maturity swaps and total return swaps, in order to lower the cost of debt and reduce interest rate risk.

As of April 30, 2013 the Alliance had a total of approximately $591,500,000 (notional amount) of total return swaps, basis swaps, and constant maturity basis swaps with Bank of America, which swaps have been implemented as part of a carefully managed program. Through this program, the Alliance has realized approximately $49,500,000 of savings since 2001. In January and May of 2011, the Alliance "locked in" approximately $16,000,000 of future cash payments through April 2014 on $438,000,000 (notional amount) of the constant maturity basis swaps. In January 2011, the Alliance converted two fixed payor swaps, totaling $132,000,000 (notional amount), to basis swaps. As of April 30, 2013, the market value of all these swaps was negative $1,660,000 with no collateral currently posted to Bank of America.

The Alliance also has a $5,600,000 (notional amount) interest rate swap with First Tennessee Bank. As of April 30, 2013 the market value of this swap was negative $92,000. Additionally, the Alliance previously had $106,000,000 (notional amount) of total return and fixed payor swaps with Lehman Brothers Special Financing, Inc. ("Lehman"). As of September 30, 2012, the Alliance had posted $13,800,000 of collateral under the Lehman swap agreements. In the fall of 2008, Lehman notified the Alliance that these transactions were going to be terminated as of January 1, 2009. The termination did not occur, due to a dispute between counterparties regarding the amount of the cost of the termination. In October 2012, both parties reached an agreement to fully settle the liability in which the Alliance paid the counterparty from the funds held as collateral and the remaining collateral was returned to the Alliance.

Additional Indebtedness

Other than the surgical services improvements currently underway at JCMC, the Alliance has no significant capital expenditures planned or in process for the near future. Funding for the surgical services project is expected to come from cash flow and the proceeds of a previous bond issue. The estimated date of completion for the surgical improvements is October 28, 2013. Other capital improvements are expected to be funded from cash flow.

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APPENDIX B

AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

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MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements
(and Supplemental Schedules)

Years Ended June 30, 2012 and 2011

PYA
Certified Public Accountants

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MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Schedules)

Years Ended June 30, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mountain States Health Alliance:

We have audited the accompanying consolidated balance sheets of Mountain States Health Alliance and subsidiaries (the Alliance) as of June 30, 2012 and 2011 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Alliance's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

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

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

Pershing Yoakley & Associates PC

Knoxville, Tennessee
October 26, 2012

ATLANTA | AUSTIN | KNOXVILLE | TAMPA BAY

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30, 2012	June 30, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 65,107**	$ 112,768
Current portion of investments - Note C	**36,557**	116,175
Patient accounts receivable, less estimated allowances for uncollectible accounts of $52,911 in 2012 and $53,366 in 2011	**150,690**	134,611
Other receivables, net	**23,008**	19,614
Inventories and prepaid expenses	**28,810**	28,965
TOTAL CURRENT ASSETS	**304,172**	412,133
INVESTMENTS, less amounts required to meet current obligations	**560,697**	581,376
PROPERTY, PLANT AND EQUIPMENT, net	**865,456**	797,418
OTHER ASSETS		
Goodwill	**154,391**	148,666
Net deferred financing, acquisition costs and other charges	**28,187**	29,844
Other assets	**28,144**	28,448
TOTAL OTHER ASSETS	**210,722**	206,958
	$ 1,941,047	$ 1,997,885

	June 30, 2012	2011
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	$ 18,525	$ 20,047
Current portion of long-term debt and capital lease obligations	32,477	28,162
Current portion of estimated fair value of derivatives - Note D	10,395	102,609
Accounts payable and accrued expenses	108,870	98,819
Accrued salaries, compensated absences and amounts withheld	55,589	57,800
Estimated amounts due to third-party payors, net	18,060	14,813
TOTAL CURRENT LIABILITIES	243,916	322,250
OTHER LIABILITIES		
Long-term debt and capital lease obligations, less current portion	1,048,098	1,040,923
Estimated fair value of derivatives, less current portion	8,986	8,123
Deferred revenue	3,134	19,267
Estimated professional liability self-insurance	9,344	9,692
Other long-term liabilities	16,822	14,352
TOTAL LIABILITIES	1,330,300	1,414,607
COMMITMENTS AND CONTINGENCIES - Notes D, F, G, and N		
NET ASSETS		
Unrestricted net assets		
Mountain States Health Alliance	436,388	400,395
Noncontrolling interests in subsidiaries	162,959	171,984
TOTAL UNRESTRICTED NET ASSETS	599,347	572,379
Temporarily restricted net assets		
Mountain States Health Alliance	11,223	10,715
Noncontrolling interests in subsidiaries	50	57
TOTAL TEMPORARILY RESTRICTED NET ASSETS	11,273	10,772
Permanently restricted net assets	127	127
TOTAL NET ASSETS	610,747	583,278
	$ 1,941,047	$ 1,997,885

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations
(Dollars in Thousands)

	Year Ended June 30, 2012	2011
Revenue, gains and support:		
Patient service revenue, net of contractual allowances and discounts	$ 1,075,050	$ 1,062,123
Provision for bad debts	(122,917)	(116,248)
Net patient service revenue	952,133	945,875
Other operating revenue	39,407	24,868
TOTAL REVENUE, GAINS AND SUPPORT	991,540	970,743
Expenses:		
Salaries and wages	358,607	342,208
Physician salaries and wages	65,706	59,249
Contract labor	6,375	5,964
Employee benefits	69,600	67,139
Fees	97,959	85,919
Supplies	170,186	168,261
Utilities	17,289	17,300
Other	76,285	69,647
Depreciation	73,060	87,499
Amortization	2,245	2,559
Interest and taxes	45,903	44,153
TOTAL EXPENSES	983,215	949,898
OPERATING INCOME	8,325	20,845
Nonoperating gains (losses):		
Interest and dividend income	15,213	16,224
Net realized gains (losses) on the sale of securities	(2,595)	1,957
Change in net unrealized gains on securities	(2,884)	22,168
Derivative related income	7,515	5,072
Loss on early extinguishment of debt - Note F	(2,636)	-
Change in estimated fair value of derivatives	(6,198)	23,049
Other nonoperating gains (losses)	11,236	(2,653)
NET NONOPERATING GAINS	19,651	65,817
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ 27,976	$ 86,662

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets
(Dollars in Thousands)

Year Ended June 30, 2012

	Mountain States Health Alliance	Noncontrolling Interests	Total
UNRESTRICTED NET ASSETS:			
Excess (Deficit) of Revenue, Gains and Support over Expenses and Losses	$ 31,702	$ (3,726)	$ 27,976
Pension and other defined benefit plan adjustments	(1,119)	(1,115)	(2,234)
Net assets released from restrictions used for the purchase of property, plant and equipment	1,550	-	1,550
Distributions to noncontrolling interests	-	(324)	(324)
Repurchases of noncontrolling interests	3,860	(3,860)	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	35,993	(9,025)	26,968
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	3,860	39	3,899
Net assets released from restrictions	(3,352)	(46)	(3,398)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	508	(7)	501
INCREASE (DECREASE) IN TOTAL NET ASSETS	36,501	(9,032)	27,469
NET ASSETS, BEGINNING OF YEAR	411,237	172,041	583,278
NET ASSETS, END OF YEAR	$ 447,738	$ 163,009	$ 610,747

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets - Continued
(Dollars in Thousands)

Year Ended June 30, 2011

	Mountain States Health Alliance	*Noncontrolling Interests*	*Total*
UNRESTRICTED NET ASSETS:			
Excess of Revenue, Gains and Support over Expenses and Losses	$ 83,269	$ 3,393	$ 86,662
Pension and other defined benefit plan adjustments	620	617	1,237
Cumulative effect of a change in accounting principle - Note B	(2,965)	-	(2,965)
Net assets released from restrictions used for the purchase of property, plant and equipment	1,946	-	1,946
Distributions to noncontrolling interests	-	(270)	(270)
Repurchases of noncontrolling interests and other	40	(115)	(75)
INCREASE IN UNRESTRICTED NET ASSETS	82,910	3,625	86,535
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	3,612	58	3,670
Net assets released from restrictions	(3,787)	(52)	(3,839)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(175)	6	(169)
INCREASE IN TOTAL NET ASSETS	82,735	3,631	86,366
NET ASSETS, BEGINNING OF YEAR	328,502	168,410	496,912
NET ASSETS, END OF YEAR	$ 411,237	$ 172,041	$ 583,278

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30, 2012	Year Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ **27,469**	$ 86,366
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for depreciation and amortization	**75,777**	90,472
Loss on early extinguishment of debt	**2,636**	-
Cumulative effect of a change in accounting principle	**-**	2,965
Change in estimated fair value of derivatives	**6,198**	(23,049)
Equity in net income of joint ventures, net	**(979)**	(898)
Loss (gain) on disposal of assets	**446**	(367)
Amounts received on interest rate swap settlements	**(7,515)**	(5,072)
Gain on escrow restructuring - Note F	**(5,337)**	-
Income recognized through forward sale agreements	**(864)**	(864)
Gain on termination of swaption and forward sale agreements - Note D	**(7,766)**	-
Capital Appreciation Bond accretion and other	**3,159**	2,738
Restricted contributions	**(3,899)**	(3,670)
Pension and other defined benefit plan adjustments	**2,234**	(1,237)
Increase (decrease) in cash due to change in:		
Patient accounts receivable	**(16,079)**	(9,031)
Other receivables, net	**(3,501)**	(2,802)
Inventories and prepaid expenses	**155**	(643)
Trading securities	**21,646**	(123,966)
Other assets	**(2,733)**	(3,632)
Accrued interest payable	**(1,522)**	4,008
Accounts payable and accrued expenses	**4,131**	2,741
Accrued salaries, compensated absences and amounts withheld	**(2,211)**	11,361
Estimated amounts due to third-party payors, net	**3,247**	4,658
Other long-term liabilities	**236**	2,961
Estimated professional liability self-insurance	**(348)**	151
Total adjustments	**67,111**	(53,176)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**94,580**	33,190
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	**(132,890)**	(172,786)
Additions to goodwill	**(5,725)**	(279)
Net decrease in assets limited as to use	**85,947**	81,383
Purchases of held-to-maturity securities	**(9,516)**	(41,060)
Net distribution from joint ventures and unconsolidated affiliates	**882**	1,057
Proceeds from sale of property, plant and equipment	**1,881**	812
NET CASH USED IN INVESTING ACTIVITIES	**(59,421)**	(130,873)

	Year Ended June 30, 2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital lease obligations, including deposits to escrow	**(71,997)**	(37,735)
Payment of acquisition and financing costs	**(2,742)**	(1,716)
Proceeds from issuance of long-term debt and other financing arrangements	**67,451**	5,954
Payment on termination of swaption	**(93,353)**	-
Gain on escrow restructuring	**5,337**	-
Net amounts received on interest rate swap settlements	**7,515**	5,072
Restricted contributions received	**4,969**	4,350
NET CASH USED IN FINANCING ACTIVITIES	**(82,820)**	(24,075)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(47,661)**	(121,758)
CASH AND CASH EQUIVALENTS, beginning of year	**112,768**	234,526
CASH AND CASH EQUIVALENTS, end of year	**$ 65,107**	$ 112,768

SUPPLEMENTAL INFORMATION AND NON-CASH TRANSACTIONS:		
Cash paid for interest	**$ 41,168**	$ 39,507
Cash paid for federal and state income taxes	**$ 336**	$ 739
Construction related payables in accounts payable and accrued expenses	**$ 6,821**	$ 11,384
Property acquired through capital lease arrangement	**$ 13,959**	$ 15,951
Payable on termination of forward sale agreements in accounts payable and accrued expenses	**$ 13,429**	$ -
Land held for expansion placed in use	**$ 1,610**	$ 4,904

During the year ended June 30, 2012, the Alliance refinanced previously issued debt of $174,547.

NOTE A--ORGANIZATION AND OPERATIONS

Mountain States Health Alliance (the Alliance) is a tax-exempt entity with operations primarily located in Washington, Sullivan, and Carter counties of Tennessee and Smyth, Wise, Dickenson, Russell and Washington counties of Virginia. The initial funds for the establishment of the Alliance in 1945 were provided by individuals and various institutions. Membership of the Alliance consists of individuals and institutions who have contributed at least $100 to the capital fund of the Alliance and are entitled to vote at the annual election of the Board of Directors.

The primary operations of the Alliance consist of ten acute and specialty care hospitals, as follows:

- Johnson City Medical Center (JCMC) - licensed for 658 beds
- Indian Path Medical Center (IPMC) - licensed for 261 beds
- Smyth County Community Hospital (SCCH) - licensed for 153 beds
- Norton Community Hospital (NCH) - licensed for 129 beds
- Sycamore Shoals Hospital (SSH) - licensed for 121 beds
- Johnston Memorial Hospital (JMH) - licensed for 116 beds
- Franklin Woods Community Hospital (FWCH) - licensed for 80 beds
- Russell County Medical Center (RCMC) - licensed for 78 beds
- Dickenson Community Hospital (DCH) - licensed for 25 beds
- Johnson County Community Hospital (JCCH) - licensed for 2 beds

The Alliance has a 50.1% interest in JMH. JMH is also the sole member of Abingdon Physician Partners (APP), a non-taxable corporation that owns and manages physician practices.

The Alliance has a 50.1% interest in NCH. NCH is also the sole member or shareholder of DCH and Norton Community Physician Services, LLC (NCPS), a taxable corporation that consists of physician practices and a pharmacy and; Community Home Care (CHC), a taxable corporation that provides home medical equipment.

The Alliance has an 80% interest in SCCH. SCCH is the sole shareholder of Southwest Community Health Services, Inc. (SWCH), a taxable entity that operates a pharmacy and provides other health services.

The activities and accounts of JMH, NCH and SCCH are included in the accompanying consolidated financial statements.

The Alliance is the sole shareholder of Blue Ridge Medical Management Corporation (BRMM), a for-profit entity that owns and manages physician practices and provides other healthcare services to patients in Tennessee and Virginia. BRMM also operates as a medical office real estate developer by

NOTE A--ORGANIZATION AND OPERATIONS - Continued

owning, selling and leasing real estate to physician practices and other entities. BRMM is either the sole shareholder, a significant shareholder, or member of the following organizations:

Mountain States Physician Group, Inc. (MSPG): A company that contracts with physicians to provide services to BRMM physician practices.

Mountain States Properties, Inc. (MSPI): An entity that owns and manages certain real estate (primarily medical office buildings) and provides rehabilitation and fitness services. In addition, MSPI is counter-party to an interest rate swap.

Mediserve Medical Equipment of Kingsport, Inc. (Mediserve): A company that provides durable medical equipment services.

Kingsport Ambulatory Surgery Center (KASC) (d.b.a. Kingsport Day Surgery): A joint venture operating as an outpatient surgery center which performs procedures primarily in otolaryngology, orthopedics, ophthalmology, and general surgery. BRMM has a 43% ownership of KASC and maintains control over KASC through a management agreement. The accounts and activities of KASC are included in the accompanying consolidated financial statements.

Piney Flats Urgent Care (PFUC): A for-profit entity that provides urgent care patient services. BRMM has a 75% ownership of PFUC. The accounts and activities of PFUC are included in the accompanying consolidated financial statements.

Wilson Pharmacy, Inc. (Wilson): In August 2012, BRMM acquired Wilson, a Company that owns and operates retail pharmacies. BRMM purchased 100% of the total issued and outstanding capital stock of Wilson for $8,114 and recognized goodwill of $5,725.

The Alliance is the primary beneficiary of the activities of Mountain States Foundation, Inc. (MSF), a not-for-profit foundation formed to coordinate fundraising and development activities of the Alliance. The Alliance is also the beneficiary of the Mountain States Health Alliance Auxiliary (Auxiliary), a not-for-profit organization formed to coordinate volunteer activities of the Alliance. The activities and accounts of MSF and the Auxiliary are included in the accompanying consolidated financial statements.

The Alliance is a majority shareholder of Integrated Solutions Health Network, LLC (ISHN). The primary function of ISHN is to establish, operate and administer a provider-sponsored health care delivery network. The accounts and activities of ISHN are included in the accompanying consolidated financial statements.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Alliance and its subsidiaries after elimination of all significant intercompany accounts and transactions. The Alliance classifies those activities directly associated with its mission of providing healthcare services, as well as other activities deemed significant to its operations, as operating activities.

Noncontrolling Interests in Subsidiaries: The Alliance's accompanying consolidated financial statements include all assets, liabilities, revenues, expenses, and changes in net assets, including amounts attributable to the noncontrolling interest. Noncontrolling interests represent the portion of equity (net assets) into a subsidiary not attributable, directly or indirectly, to the Alliance. For the years ending June 30, 2012 and 2011, the Alliance attributed an Excess (Deficit) of Revenue, Gains and Support over Expenses and Losses of ($3,726) and $3,393, respectively, to the noncontrolling interests in JMH, NCH, SCCH, KASC, PFUC and ISHN based on the noncontrolling interests' respective ownership percentage.

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents: Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents designated as assets limited as to use or uninvested amounts included in investment portfolios are not included as cash and cash equivalents on the Consolidated Balance Sheets.

Investments: Investments as reported in the Consolidated Balance Sheets include trading securities, held-to-maturity securities and assets limited as to use (Note C). The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-320, *Investments – Debt and Equity Securities*, allows not-for-profit organizations to report in a manner similar to business entities by identifying securities as available-for-sale or held-to-maturity and to exclude the unrealized gains and losses on those securities from the Performance Indicator (as defined below). Investments which the Alliance has the positive intent and ability to hold to maturity are considered as held-to-maturity. Substantially all other investments are considered as trading securities. Management annually evaluates the held-to-maturity investment portfolio and recognizes any "other-than-temporary" losses as deductions from the Performance Indicator. Management's evaluation considers the amount of decline in fair value, as well as the time period of any such decline.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Management does not believe any investment classified as held-to-maturity is other-than-temporarily impaired at June 30, 2012.

Within the trading securities portfolio, all debt securities and marketable equity securities with readily determinable fair values are reported at fair value based on quoted market prices. Investments without readily determinable fair values are reported at estimated fair market value pursuant to FASB ASC 825, *Financial Instruments*. Guaranteed investment contracts are reported at contract value.

Realized gains and losses on trading securities and assets limited as to use are computed using the specific identification method for cost determination. Interest and dividend income is reported net of related investment fees.

Investments in joint ventures are reported under the equity method of accounting, which approximates the Alliance's equity in the underlying net book value, unless the ownership structure requires consolidation. Other assets include investments in joint ventures of $2,153 and $2,367 at June 30, 2012 and 2011, respectively.

Inventories: Inventories, consisting primarily of medical supplies, are stated at the lower of cost or market.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost, or if donated, at the fair value at the date of gift. Generally, depreciation is computed by the straight-line method over the estimated useful life of the asset. Equipment held under capital lease obligations is amortized under the straight-line method over the shorter of the lease term or estimated useful life. Amortization of buildings and equipment held under capital leases is shown as a part of depreciation expense and accumulated depreciation in the accompanying consolidated financial statements. Renewals and betterments are capitalized and depreciated over their useful life, whereas costs of maintenance and repairs are expensed as incurred.

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The amount capitalized is net of investment earnings on assets limited as to use derived from borrowings designated for capital assets.

The Alliance reviews capital assets for indications of potential impairment when there are changes in circumstances related to a specific asset. If this review indicates that the carrying value of these assets may not be recoverable, the Alliance estimates future cash flows from operations and the eventual disposition of such assets. If the sum of these undiscounted future cash flows is less than

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

the carrying amount of the asset, a write-down to estimated fair value is recorded. The Alliance did not recognize any impairment losses during 2012 and 2011.

Other assets include property held for resale and property held for expansion of $2,620 and $4,230, respectively, at June 30, 2012 and 2011. During 2012, property held for expansion totaling approximately $1,610 was transferred to property, plant and equipment in conjunction with the construction of a replacement facility for SCCH. During 2011, property held for expansion totaling approximately $4,904 was transferred to property, plant and equipment in conjunction with the construction of FWCH. Property held for resale and property held for expansion primarily represent land contributed to, or purchased by, the Alliance plus costs incurred to develop the infrastructure of such land. Management annually evaluates its investment and records non-temporary declines in value when it is determined the ultimate net realizable value is less than the recorded amount. No such declines were identified in 2012 and 2011.

Goodwill: Goodwill represents the difference between the acquisition cost of assets and the estimated fair value of net tangible and any separately identified intangible assets. Effective July 1, 2010, the Alliance adopted ASC 350, *Intangibles – Goodwill and Other*, which requires goodwill to be evaluated for impairment at least annually. Upon adoption of ASC 350, the Alliance was required to perform a transitional impairment test. As a result of this testing, management determined that as of July 1, 2010 approximately $2,965 of goodwill associated with one of its reporting units was impaired, and such impairment has been reflected as the Cumulative Effect of a Change in Accounting Principle in the 2011 Consolidated Statement of Changes in Net Assets.

In September 2011, the FASB issued Accounting Standards Update (ASU) 2011-08 which allows entities to use a qualitative approach to determine whether the fair value of a reporting unit is more likely than not impaired. The Alliance early adopted the provisions of this ASU and, based upon this qualitative analysis, management does not believe it is more likely than not that goodwill associated with any of its reporting units is impaired as of June 30, 2012. The reporting unit for evaluation of substantially all such goodwill is the Alliance's aggregate acute-care operations.

Deferred Financing, Acquisition Costs and Other Charges: Other assets, including deferred financing, acquisition costs and other charges, total $28,187 and $29,844 at June 30, 2012 and 2011, respectively. Deferred financing costs are amortized over the life of the respective bond issue principally using the average bonds outstanding method. Other intangible assets include licenses and similar assets and are being amortized over the intangible's estimated useful life under the straight-line method.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Prior to 2009, the Alliance routinely financed interest rate swap and other derivative transaction issuance costs through modification of future settlement terms. As such, the unamortized issuance costs of these derivatives are included as deferred financing costs in the accompanying Consolidated Balance Sheets and are being amortized over the term of the respective derivative instrument. The unpaid issuance costs are included as a part of the estimated fair value of derivatives in the accompanying Consolidated Balance Sheets. Subsequent to 2009, interest rate swap and derivative transaction issuance costs were expensed as incurred.

Derivative Financial Instruments: As further described in Note D, the Alliance is a party to interest rate swap and other derivative agreements. These financial instruments are not designated as hedges and have been presented at estimated fair market value in the accompanying Consolidated Balance Sheets as either current or long-term liabilities, based upon the remaining term of the instrument. Changes in the estimated fair value of these derivatives are included in the Consolidated Statements of Operations as part of nonoperating gains (losses). Net settlements and other related income of derivatives are also reflected as a part of the Performance Indicator (described below).

These fair values are based on the estimated amount the Alliance would receive, or be required to pay, to enter into equivalent agreements at the valuation date and include an estimated credit value adjustment. The fair value of various derivatives are netted on the Consolidated Balance Sheets based on management's evaluation of the settlement provisions in the master contract. Gross positions of these derivatives are disclosed in Note D. Due to the nature of these financial instruments, such estimates of fair value are subject to significant change in the near term.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Self-insurance liabilities include estimated reserves for reported and unreported professional liability claims (Note G) and are recorded at the estimated net present value of such claims. Other long-term liabilities include contributions payable and obligations under deferred compensation arrangements, a defined benefit pension plan, a post-retirement employee benefit plan as well as other liabilities which management estimates are not payable within one year.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts, 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 Alliance's revenue recognition policies related to self-pay and other types of payors emphasize revenue recognition only when collections are reasonably assured.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Patient accounts receivable are reported net of both an estimated allowance for uncollectible accounts and an estimated allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid, TennCare and other third-party payment programs. Current operations include a provision for bad debts in the Consolidated Statements of Operations estimated based upon the age of the patient accounts receivable, historical writeoffs and recoveries and any unusual circumstances (such as local, regional or national economic conditions) which affect the collectibility of receivables, including management's assumptions about conditions it expects to exist and courses of action it expects to take. Additions to the allowance for uncollectible accounts result from the provision for bad debts. Patient accounts written off as uncollectible are deducted from the allowance for uncollectible accounts.

For uninsured patients that do not qualify for charity care, the Alliance recognizes revenue on the basis of discounted rates under the Alliance's self-pay patient policy. Under the policy, a patient who has no insurance and is ineligible for any government assistance program has his or her bill reduced to the amount which generally would be billed to a commercially insured patient.

The Alliance's policy does not require collateral or other security for patient accounts receivable. The Alliance routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Charity Care: The Alliance accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Alliance and various guidelines outlined by the Federal Government. These policies define charity as those services for which no payment is anticipated and, as such, charges at established rates are not included in net patient service revenue. The estimated direct and indirect cost of providing these services totaled approximately $24,709 and $18,158 in 2012 and 2011, respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated under a reasonable and systematic approach.

In addition to the charity care services described above, the Alliance provides a number of other services to benefit the poor for which little or no payment is received. Medicare, Medicaid, TennCare and State indigent programs do not cover the full cost of providing care to beneficiaries of those programs. The Alliance also provides services to the community at large for which it receives little or no payment.

Excess (Deficit) of Revenue, Gains and Support Over Expenses and Losses: The Consolidated Statements of Operations and the Consolidated Statements of Changes in Net Assets includes the

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

caption *Excess (Deficit) of Revenue, Gains and Support Over Expenses and Losses* (the Performance Indicator). Changes in unrestricted net assets which are excluded from the Performance Indicator, consistent with industry practice, include contributions of long-lived assets or amounts restricted to the purchase of long-lived assets, pension and related adjustments, and distributions to, or contributions from, owners and transactions with noncontrolling interests.

Income Taxes: The Alliance is classified as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been made in the accompanying consolidated financial statements for the Alliance and its tax-exempt subsidiaries. Taxable entities account for income taxes in accordance with FASB ASC 740, *Income Taxes* (Note L). The Alliance has no significant uncertain tax positions at June 30, 2012 and 2011.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor or time restriction expires; that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Consolidated Statements of Operations and Consolidated Statements of Changes in Net Assets as net assets released from restrictions. The Alliance's policy is to net contribution and grant revenues against related expenses and present such amounts as a part of other nonoperating gains (losses) in the Consolidated Statements of Operations. Permanently restricted net assets have been restricted by donors to be maintained by the Alliance in perpetuity.

Fair Value Measurement: The Alliance had previously adopted FASB ASC 820, *Fair Value Measurements and Disclosures,* which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements.

Subsequent Events: The Alliance evaluated all events or transactions that occurred after June 30, 2012, through October 26, 2012, the date the consolidated financial statements were available to be issued. During this period management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2012 consolidated financial statements, other than as discussed in Notes D and S.

New Accounting Pronouncements: In July 2011, the FASB issued ASU 2011-07, *Healthcare Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Healthcare Entities*, which requires certain healthcare entities reclassify the provision for bad debts associated with providing patient care from an operating expense to a deduction from net patient service revenue in the Consolidated

(Dollars in Thousands)

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Statements of Operations. Additionally, ASU 2011-07 requires enhanced disclosures about an entity's policies for recognizing revenue and assessing bad debts and qualitative and quantitative information about changes in the allowance for doubtful accounts. The Alliance retroactively adopted ASU 2011-07 in fiscal year 2012. The adoption of ASU 2011-07 did not have a material impact on the 2012 or 2011 consolidated financial statements.

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities – Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24). The amendments in ASU 2010-24 clarify that a healthcare entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. The Alliance adopted ASU 2010-24 prospectively during 2012. The adoption of ASU 2010-24 did not have a material impact on the consolidated financial statements.

In August 2010, the FASB issued ASU 2010-23, *Health Care Entities – Measuring Charity Care for Disclosure.* ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost, identified as the direct and indirect costs of providing the charity care, be used as the measurement basis for disclosure purposes. ASU 2010-23 also requires disclosure of the method used to identify or determine such costs. The Alliance adopted ASU 2010-23 in 2012. The adoption of ASU 2010-23 did not have a material impact on the consolidated financial statements.

Reclassifications: Certain 2011 amounts have been reclassified to conform with the 2012 presentation in the accompanying consolidated financial statements.

NOTE C--INVESTMENTS

Assets limited as to use are summarized by designation or restriction as follows at June 30:

	2012	2011
Designated or restricted:		
Under safekeeping agreements and other	$ 24,026	$ 28,349
Under guarantee agreements	-	92,720
By Board for capital improvements	4	4

(Dollars in Thousands)

NOTE C--INVESTMENTS - Continued

	2012	2011
Under bond indenture agreements:		
For debt service and interest payments	77,602	67,874
For capital acquisitions	29,578	28,835
	131,210	217,782
Less: amount required to meet current obligations	(36,557)	(116,175)
	$ 94,653	$ 101,607

Assets limited as to use consist of the following at June 30:

	2012	2011
Cash, cash equivalents and money market funds	$ 80,304	$ 115,579
U.S. Government securities	8,582	1,795
U.S. Agency securities	40,398	7,688
Municipal obligations	1,926	-
Guaranteed investment contract	-	92,720
	$ 131,210	$ 217,782

Trading securities consist of the following at June 30:

	2012	2011
Cash, cash equivalents and money market funds	$ 5,186	$ 29,159
U.S. Government securities	10,697	9,409
U.S. Agency securities	26,165	31,551
Corporate and foreign bonds	52,581	32,895
Municipal obligations	961	451
Preferred and asset backed securities	11,183	8,945
U.S. equity securities	28,344	21,774
Mutual funds	141,968	166,708
Other	34,880	32,718
	$ 311,965	$ 333,610

Held-to-maturity securities (other than assets limited as to use) are carried at amortized cost and consist of the following at June 30:

(Dollars in Thousands)

NOTE C--INVESTMENTS - Continued

	2012	2011
Cash, cash equivalents and money market funds	$ 298	$ 753
Corporate and foreign bonds	138,232	135,745
Municipal obligations	15,549	9,661
	$ 154,079	$ 146,159

Held-to-maturity securities had gross unrealized gains and losses of $11,432 and $33, respectively, at June 30, 2012 and $6,838 and $276, respectively at June 30, 2011. At June 30, 2012, the Alliance held no securities within the held-to-maturity portfolio which had been at an unrealized loss position for over one year. At June 30, 2011, the Alliance held nine securities within the held-to-maturity portfolio with a fair value and unrealized loss of $549 and $44, respectively, which had been at an unrealized loss position for over one year. At June 30, 2012, the contractual maturities of held-to-maturity securities were $11,225 due in one year or less, $67,532 due from one to five years and $75,322 due after five years. At June 30, 2011, the contractual maturities of held-to-maturity securities were $13,816 due in one year or less, $55,563 due from one to five years and $76,780 due after five years.

At June 30, 2012 and 2011, the Alliance held investments in certain limited partnerships and hedge funds of $34,880 and $32,718, respectively, that have a wide range of investment strategies with various levels of risk. These funds are included within trading securities and do not have readily determinable fair values. The funds are reported at estimated fair market value pursuant to FASB ASC 825, *Financial Instruments*.

NOTE D--DERIVATIVE TRANSACTIONS

The Alliance is a party to a number of derivative transactions. These derivatives have not been designated as hedges and are valued at estimated fair value in the accompanying Consolidated Balance Sheets. Management's primary objective in holding such derivatives is to introduce a variable rate component into its fixed rate debt structure. Under the terms of these agreements, changes in the interest rate environment could have a significant effect on the Alliance.

These derivative agreements require that the Alliance post additional collateral for the derivatives' fair market value deficits above specified levels. Such investments are included as assets limited as to use. As of June 30, 2012, management believes the Alliance was fully collateralized with respect to the derivative agreements and management does not believe such collateral is exposed to third-party credit risk.

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS - Continued

Interest Rate Swaps: The Alliance is a party to six interest rate swap agreements with Bank of America, Merrill Lynch as the counterparty. The terms of five of these agreements were modified without settlement during 2011. No gain or loss was realized as a result of the modifications although such modifications did impact the estimated fair value of the interest rate swaps. A liability, representing the estimated net fair value of these swaps, of $8,765 and $8,123 was recognized by the Alliance as of June 30, 2012 and 2011, respectively.

The following is a summary of five of these interest rate swap agreements at June 30, 2012:

			Payments by:		
Swap	*Notional Amount*	*Term*	*Counterparty*	*Alliance*	*Estimated Fair Value*
A	$ 170,000	4/2008-4/2026	1.265% through April 2013; 1.07% through April 2014; then 71.10% of USD-ISDA Swap Rate	0.00% through April 2014, then USD-SIFMA	$ 3,500
B	95,000	4/2008-4/2026	1.265% through April 2013; 1.08% through April 2014; then 71.18% of USD-ISDA Swap Rate	0.00% through April 2014, then USD-SIFMA	1,983
C	173,030	4/2008-4/2034	1.315% through April 2013; 1.12% through April 2014; then 72.35% of USD-ISDA Swap Rate	0.00% through April 2014, then USD-SIFMA	(513)
D	82,055	12/2007-7/2033	3.493% through July 2012; then 0% USD-LIBOR-BBA through July 2012, then 67% USD-LIBOR-BBA	4.41% through July 2012; then .312% USD-SIFMA	(9,520)
E	50,000	2/2008-7/2038	67.00% of USD-LIBOR-BBA plus .145%	USD-SIFMA	(3,895)

Deferred financing and acquisition costs, net of amortization, include $6,135 and $6,480 at June 30, 2012 and 2011, respectively, related to these swaps.

In addition to the interest rate swaps described above, the Alliance and Bank of America, Merrill Lynch are also parties to a total return swap. The notional amount of the total return swap is equal to the outstanding 2001A Hospital Revenue and Improvement Bonds which was $22,300 at June 30, 2012. The estimated fair value of the total return swap was $(320) and $(340) at June 30, 2012 and 2011, respectively. The terms of the swap were modified without settlement during 2012. No gain or loss was realized as a result of the modifications although such modifications did impact the swap's estimated fair value. The payment terms, as amended consist of the following:

NOTE D--DERIVATIVE TRANSACTIONS - Continued

- Beginning July 1, 2012, the Alliance will pay a variable rate of USD-SIFMA plus basis points ranging from 65 to 400, depending on the Alliance's bond rating as set forth by Standard and Poor's Ratings Service and Moody's Investors Service. The Alliance will receive a fixed rate of 4.50% and settlements will be made semi-annually through July 1, 2015.

- A "total return provision" under which the Alliance will pay (or receive) an amount equal to the product of the outstanding 2001A Reference Bonds multiplied by the difference between the outstanding 2001A Reference Bonds and the 2001A Reference Bonds' market price at termination, as defined in the agreement.

In addition to the six interest rate swaps discussed above, the Alliance is also a party to an interest rate swap with Regions Bank (the Regions swap) and an interest rate swap with First Tennessee Bank National Association (the FTB swap). The Regions swap was entered into in July 2011 and terminates in August 2012. The FTB swap was entered into in June 2010 and terminates in July 2015. The notional amounts of the Regions swap and FTB swap were $13,727 and $5,524, respectively, at June 30, 2012. A liability, representing the estimated net fair value of these swaps, of $221 was recognized by the Alliance as of June 30, 2012. The estimated fair value of the FTB swap was not significant at June 30, 2011.

The Alliance was previously a party to a total return swap with Lehman Brothers as the counterparty. Lehman Brothers filed for bankruptcy in September 2008. The Alliance subsequently received notification from Lehman Brothers Special Financing, Inc. indicating the intent of the counterparty to terminate this agreement effective January 1, 2009. The Alliance and Lehman Brothers Special Financing, Inc. were unable to reach a settlement agreement at the time the swap was terminated.

An estimated liability related to the agreement of $10,395 and $10,565 was recognized by the Alliance at June 30, 2012 and 2011. In addition, a third party holds investments with a fair market value of approximately $13,809 and $13,381, respectively, at June 30, 2012 and 2011 as collateral. The collateral and estimated liability related to this agreement are classified as current in the accompanying Consolidated Balance Sheets.

At June 30, 2012, the parties were undergoing alternate dispute resolution, including non-binding arbitration. Subsequent to year end, the parties reached a tentative settlement agreement. In full settlement of the liability, the Alliance will pay the counterparty $7,375 from the funds held as collateral and the remaining collateral will be returned to the Alliance.

NOTE D--DERIVATIVE TRANSACTIONS - Continued

Interest Rate Swap Option: In June 2004, the Alliance entered into an agreement with Bear Stearns (acquired by JP Morgan) whereby Bear Stearns purchased from the Alliance an option to enter into an interest rate swap agreement (swaption) with the Alliance beginning July 1, 2011, which is an optional redemption date related to the Alliance's early extinguished 2000A and 2000B Bonds (Note F). The purpose of this agreement was to effectively sell the call features related to the early extinguished Series 2000A and 2000B Bonds. As consideration under this agreement, the Alliance received a total of \$42,500 in upfront payments as the swaption premium. Such amounts were initially recorded as estimated fair value of derivatives in the Consolidated Balance Sheets.

During 2012, the counterparty expressed their intent to exercise the swaption on January 1, 2012 and the Alliance exercised its right to terminate the swaption at its fair market value. The swaption was terminated on October 13, 2011. To effectuate the termination, the Alliance transferred \$93,353 of a Guaranteed Investment Contract (GIC), described below, to the third party as a termination payment. A gain of \$3,058 was recognized on the termination, which is included within other nonoperating gains (losses) in the accompanying 2012 Consolidated Statement of Operations.

A liability of \$92,044, representing the estimated fair value of the swaption at June 30, 2011, respectively, is included in estimated fair value of derivatives in the accompanying 2011 Consolidated Balance Sheet. The change in estimated fair value of derivatives in the accompanying Consolidated Statements of Operations for 2012 and 2011 includes an unrealized loss of \$4,676 and \$2,394, respectively, related to this derivative, prior to termination.

Forward Sale Agreements: In June 2004, the Alliance entered into two related forward sale agreements with the counterparty to the swaption agreements and the Master Trustee of the Series 2000 Bonds. The forward sale agreements originally related to the Debt Service Reserve Fund and to the Debt Service Fund, respectively, (collectively, the "Funds"), as established under provisions of the Master Trust Indenture related to the issuance of the Series 2000 Bonds. In consideration of the future earnings on the Funds, the counterparty paid the Master Trustee a total of \$30,000 during 2005, to be held on behalf of the Alliance. As the original intent of these Funds was to secure debt service payments under the above referenced Bonds, the agreement requires these funds to be held under a guaranty agreement as further described below.

In June 2006, one of these agreements was amended to also relate to the Series 2000C, 2000D, 2006A and 2006B Bonds, and to remove the Series 2000A Bonds from consideration under the agreement. In connection with the issuance of the Series 2007 Bonds and the derecognition of a portion of the Series 2000A Bonds, all of the outstanding Series 2000B Bonds, and all of the outstanding 2006B Bonds (Note F), one of these agreements as it relates to the Series 2000A and 2000B Bonds was partially terminated. As such, during 2008 the Alliance reduced its liability with respect to the portion related to the Series 2000A and 2000B Bonds, and paid the counterparty

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS - Continued

$6,186 under the terms of the agreement. The agreement was amended in fiscal year 2011 to include the Series 2010A Bonds and to remove the Series 2000B and 2006B Bonds.

Amounts were being recognized as investment income over the life of the agreements. A liability of $19,001 representing the unamortized payments from the counterparty at June 30, 2011 is included as part of deferred revenue in the accompanying 2011 Consolidated Balance Sheet.

In June 2012, the Alliance and the counterparty terminated the two forward sale agreements. To effectuate the termination, the Alliance agreed to pay $13,429 to the counterparty. At June 30, 2012, the termination payable was included in accounts payable and accrued expenses in the accompanying 2012 Consolidated Balance Sheet. The Alliance recognized a gain of $4,708 on the termination of these agreements, which is included within other nonoperating gains (losses) in the accompanying 2012 Consolidated Statement of Operations.

Pursuant to these agreements, the counterparty required that the Alliance's obligations under the swaption and forward sale agreements be collateralized under a guarantee agreement in favor of the counterparty. Due to various requirements of the Master Trust Indenture, the Alliance had previously transferred to MSF a total of $42,500 that was in turn deposited with the counterparty as collateral in a GIC. Amounts received under the forward sale agreements were also deposited into the GIC. All GIC deposits earn interest compounded at 4.14% for the first year, and at 3.5% thereafter through July 1, 2011. The GIC deposits as of June 30, 2011 totaled $92,720. The GIC was substantially utilized on October 13, 2011 to terminate the swaption discussed above and, as such, is included in the current portion of assets whose use is limited in the 2011 Consolidated Balance Sheet.

NOTE E--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30:

	2012	*2011*
Land	$ 69,356	$ 63,749
Buildings and leasehold improvements	661,146	454,852
Property and improvements held for leasing	74,914	80,568
Equipment	571,774	532,767
Buildings and equipment held under capital lease	20,540	42,720
	1,397,730	1,174,656

(Dollars in Thousands)

NOTE E--PROPERTY, PLANT AND EQUIPMENT - Continued

	2012	2011
Less: Allowances for depreciation and amortization	(626,552)	(586,471)
	771,178	588,185
Construction in progress (Note N)	94,278	209,233
	$ 865,456	$ 797,418

Accumulated depreciation and amortization on property and improvements held for leasing purposes is $22,951 and $23,348 at June 30, 2012 and 2011, respectively. Net interest capitalized was $3,110 and $10,640 for the years ended June 30, 2012 and 2011, respectively.

During 2012, the Alliance executed an Amendment and Mutual Release Agreement with a vendor whereby the Alliance waived its right to take any action with respect to prior contracts in exchange for professional services in future periods, primarily related to accelerated deployment of information systems. The Alliance recognized approximately $3,200 in 2012 as additions to property, plant and equipment with an offsetting gain related to the agreed-upon value of such professional services. The Alliance anticipates recognition of additional amounts in future periods as such services are provided.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt and capital lease obligations consist of the following at June 30:

			Outstanding Balance	
Description	*Maturities*	*Rates*	*2012*	*2011*
2011A Hospital Revenue Bonds	$65,260 uninsured term bonds, due July 1, 2033, subject to early redemption or tender	Variable, 0.19% at June 30, 2012	$ 65,260	$ -
2011B Hospital Revenue Bonds	$20,000 uninsured term bonds, due July 1, 2033, subject to early redemption or tender	Variable, 0.19% at June 30, 2012	20,000	-
2011C Hospital Revenue Bonds	$49,875 uninsured term bonds, due July 1, 2031, subject to early redemption or tender	Variable, 0.16% at June 30, 2012	49,875	-
2011D Hospital Revenue Bonds	$60,705 uninsured term bonds, due July 1, 2031, subject to early redemption or tender	Variable, 0.19% at June 30, 2012	60,705	-
2011E Taxable Bonds	$15,960 uninsured term bonds, due July 1, 2026, subject to early redemption or tender	Variable, 0.24% at June 30, 2012	15,960	-
2011 Hospital Facility Revenue Refunding and Improvement Bonds (JMH)	$24,870 uninsured term bonds, due July 1, 2033, subject to early redemption or tender	Variable, 1.2% at June 30, 2012	24,870	-
2010A Hospital Revenue Bonds, net of unamortized premium of $1,017 and $1,056 at June 30, 2012 and 2011, respectively	$32,515 uninsured serially, through 2020 $14,985 uninsured term bonds, due July 1, 2025 $19,385 uninsured term bonds, due July 1, 2030 $39,570 uninsured term bonds, due July 1, 2038 $55,480 uninsured term bonds, due July 1, 2038	3.00% to 5.00% 5.38% 5.63% 6.50% 6.00%	162,952	169,137

MOUNTAIN STATES HEALTH ALLIANCE

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended June 30, 2012 and 2011

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Description	Maturities	Rates	Outstanding Balance 2012	Outstanding Balance 2011
2010B Hospital Revenue Bonds, net of unamortized premium of $669 and $711 at June 30, 2012 and 2011, respectively	$23,855 uninsured serially, through 2020 $4,355 uninsured term bonds, due July 1, 2023 $4,250 uninsured term bonds, due July 1, 2028	2.50% to 5.00% 5.00% 5.50%	33,129	36,646
2009A Hospital Revenue Bonds, net of unamortized discount of $117 and $121 at June 30, 2012 and 2011, respectively	$725 uninsured term bonds, due July 1, 2019 $1,730 uninsured term bonds, due July 1, 2029 $3,105 uninsured term bonds, due July 1, 2038	7.25% 7.50% 7.75%	5,443	5,439
2009B Hospital Revenue Bonds	$5,535 uninsured term bonds, due July 1, 2038	8.00%	5,535	5,535
2009C Hospital Revenue Bonds, net of unamortized discount of $2,334 and $2,421 at June 30, 2012 and 2011, respectively	$21,100 uninsured term bonds, due July 1, 2019 $20,000 uninsured term bonds, due July 1, 2029 $74,855 uninsured term bonds, due July 1, 2038	7.25% 7.50% 7.75%	113,621	113,534
2008A Hospital Revenue Bonds	$13,245 uninsured term bonds, due July 1, 2038, subject to early redemption or tender	Variable, 0.19% at June 30, 2012	13,245	13,245
2008B Hospital Revenue Bonds	$52,930 uninsured term bonds, due July 1, 2038, subject to early redemption or tender	Variable, 0.19% at June 30, 2012	52,930	53,855
2007B Taxable Hospital Revenue Bonds, bifurcated into sub-series B-1, B-2 and B-3 during 2011	$156,760 uninsured term bonds, due July 1, 2033, subject to early redemption or tender	Variable, 0.20% to 0.23% at June 30, 2012	156,760	307,900
2006A Hospital First Mortgage Revenue Bonds, net of unamortized premium of $141 and $147 at June 30, 2012 and 2011, respectively	$5,940 uninsured serially, through 2019 $7,375 uninsured term bonds, due July 1, 2026 $20,505 uninsured term bonds, due July 1, 2031 $135,175 uninsured term bonds, due July 1, 2036	5.00% 5.25% 5.50% 5.50%	169,136	169,782
2001A Hospital First Mortgage Revenue Bonds, re-issued in 2012	$22,300 term bonds, due July 1, 2026, subject to early redemption or tender	4.50% as re-issued	22,300	23,100
2001 Hospital Refunding and Improvement Revenue Bonds (NCH), net of unamortized discount of $34 June 30, 2011	Redeemed in 2012	N/A	-	11,876
2000A Hospital First Mortgage Revenue Refunding Bonds	$32,431 insured Capital Appreciation Bonds, interest and principal due July 1, 2026 through 2030	6.63%	32,431	30,358
2000C Hospital First Mortgage Revenue Bonds	$33,230 insured term bonds, due July 1, 2026	8.50%	33,230	34,325
2000D First Mortgage Taxable Bonds	$14,315 insured term bonds, due July 1, 2026	8.50%	14,315	14,790
1998 Hospital Refunding and Improvement Revenue Bonds (JMH)	Redeemed in 2012	N/A	-	14,115
Capitalized lease obligation	Lease paid-off in 2012	N/A	-	13,656
$7,500 promissory note	Note paid-off in 2012	N/A	-	5,473
Capitalized lease obligations secured by equipment	Various monthly payments of monthly principal and interest	Various	1,645	2,518
$1,065 note payable	Note paid-off in 2012	N/A	-	572
$6,332 promissory note	Promissory note paid-off in 2012	N/A	-	5,945
$3,955 note payable	Note paid-off in 2012	N/A	-	3,743
Notes payable under Master Financing Agreement	Notes paid-off in 2012	N/A	-	14,011
$1,885 line of credit	Line of credit paid-off in 2012	N/A	-	1,873
$1,593 note payable, secured by equipment	Various annual principal payments through July 2014	Unspecified	1,343	1,593
Capitalized lease obligation secured by medical office building (JMH)	Maturing through 2026 - Note S	9.72%	15,498	15,952
Master installment payment agreement	Various quarterly payments through May 2014	Unspecified	4,438	112

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Description	Maturities	Rates	Outstanding Balance 2012	Outstanding Balance 2011
Master installment payment agreement, secured by equipment	Various quarterly payments through May 2014	Unspecified	3,032	-
$1,870 note payable, secured by land	Monthly principal payments of $10 through maturity in July 2015	Unspecified	1,870	-
$1,052 in promissory notes secured by assets of Emmaus Community Healthcare, LLC	Various monthly principal and interest payments through 2019	3.00% - 3.75%	1,052	-
			1,080,575	1,069,085
	Less current portion		(32,477)	(28,162)
			$ 1,048,098	$ 1,040,923

Series 2011 Bonds: In October 2011, the Alliance issued $65,260 (Series 2011A) and $20,000 (Series 2011B) variable rate tax-exempt Hospital Revenue Bonds through The Health and Educational Facilities Board of the City of Johnson City, Tennessee, $49,875 (Series 2011C) and $60,705 (Series 2011D) variable rate tax-exempt Hospital Revenue Bonds through the Industrial Development Authority of Smyth, Virginia and $15,960 (Series 2011E) variable rate Taxable Bonds (collectively, the Series 2011 Bonds). The Series 2011 Bonds bear interest at a variable rate determined by a remarketing agent based upon a weekly rate period. The proceeds from the Series 2011A and Series 2011B Bonds were used to finance certain capital acquisitions in the State of Tennessee and pay issuance costs related to these Bonds. The proceeds from the Series 2011C and 2011D Bonds were used to refinance the 2001 NCH Hospital Refunding and Improvement Revenue Bonds, finance capital acquisitions for NCH, JMH and SCCH and to pay issuance costs associated with these Bonds. The Series 2011E Bond proceeds were used to refinance certain capital acquisitions of SCCH and BRMMC and pay issuance costs. The timely payment of the Series 2011 Bonds is secured by a letter of credit which expires October 19, 2014.

In November 2011, JMH issued $24,870 (JMH Series 2011) variable rate tax-exempt Hospital Facility Revenue Refunding and Improvement Bonds through the Industrial Development Authority of Smyth County. The JMH Series 2011 Bonds bear interest at a variable rate determined by a remarketing agent based upon a weekly rate period. The proceeds from the JMH Series 2011 Bonds were used to refinance the 1998 Hospital Refunding and Improvement Revenue Bonds, refinance existing indebtedness incurred to finance capital acquisitions and to pay issuance costs associated with the Bonds.

Series 2010 Bonds: In April 2010, the Alliance issued $168,080 (Series 2010A) and $35,935 (Series 2010B) fixed rate Hospital Refunding Revenue Bonds (collectively, the Series 2010 Bonds). Proceeds of the Series 2010A and the Series 2010B Bonds were used to refinance outstanding indebtedness, specifically related to the Alliance's facilities in Tennessee and in Virginia, respectively, fund debt service reserve funds and pay costs of issuance.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Series 2009 Bonds: In March 2009, the Alliance issued $5,560 (Series 2009A), $5,535 (Series 2009B) and $115,955 (Series 2009C) fixed rate Hospital Revenue Bonds (collectively, the Series 2009 Bonds). The proceeds of Series 2009 Bonds were used to refinance a portion of the outstanding Series 2006C Taxable Notes, which were originally issued to finance a capital commitment to SCCH and purchase certain leased assets, finance the acquisition of a majority ownership in JMH, fund a debt service reserve fund and pay costs of issuance. The portion of the 2006C taxable notes which were not refinanced with the Series 2009 Bonds were repaid with cash on hand.

Series 2008 Bonds: In February 2008, the Alliance issued $72,770 (Series 2008A) and $54,230 (Series 2008B) variable rate Hospital Revenue Bonds (collectively, the Series 2008 Bonds). The proceeds of Series 2008 Bonds were primarily used to finance certain future capital projects for the Alliance's hospital facilities and for the repayment of previously issued 2008 Taxable Notes used for the acquisition of RCMC. The payment of principal and interest on the Series 2008 Bonds and the purchase price of any tendered bonds on each series are secured by a separate, irrevocable, transferable, direct-pay letter of credit. A portion ($59,525) of the Series 2008A Bonds were repaid from proceeds of the Series 2010 Bonds.

Series 2007 Bonds: In December 2007, the Alliance issued $104,355 (Series 2007A), $327,170 (Series 2007B taxable) and $36,575 (Series 2007C) variable rate Hospital Revenue Bonds (collectively, the Series 2007 Bonds). The proceeds of Series 2007 Bonds were primarily used to early extinguish a portion of the outstanding Series 2000A Bonds, all of the outstanding 2000B Bonds, all of the outstanding Series 1994 Bonds, and all of the outstanding Series 2006B Bonds; to finance the acquisition of a majority ownership in NCH, and to finance certain capital improvements and equipment acquisitions for the Alliance's hospital facilities. A portion of the outstanding Series 2007A ($91,685) and Series 2007C ($32,840) Bonds were repaid from proceeds of the Series 2010 Bonds.

During 2011, the remaining outstanding Series 2007A and Series 2007C Bonds were redeemed and the existing 2007B Bonds were repaid through a remarketing of Sub-Series 2007B-1, 2007B-2 and 2007B-3 (collectively, the Sub-Series 2007B Bonds), created per the mandatory tender and letter of credit substitution provisions. The payment of principal and interest on the Sub-Series 2007B Bonds and the purchase price of any tendered bonds on each series are secured by a separate, irrevocable, transferable, direct-pay letter of credit.

During 2012, the Alliance redeemed $115,135 of the Series 2007B-1 Bonds and $29,405 of the Series 2007B-3 Bonds.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Series 2006 Bonds: During 2006, the Alliance issued $173,030 Hospital First Mortgage Revenue Bonds (Series 2006A) and $66,500 Hospital First Mortgage Variable Rate Revenue Bonds (Series 2006B). The proceeds from the sale of the Series 2006A Bonds were used to finance certain future and prior capital projects for the Alliance's hospital facilities and to refund certain existing indebtedness, specifically the Series 2001B Bonds (discussed below) and certain existing short and intermediate term loans and leases, as well as fund a debt service reserve fund. The Series 2006B Bond proceeds were substantially used to refund the remaining outstanding principal of the Series 2001B Bonds and establish a debt service reserve fund.

Series 2001 Bonds: During 2001, the Alliance issued $26,000 Hospital First Mortgage Revenue Bonds (Series 2001A) and $60,175 Hospital First Mortgage Revenue Bonds (Series 2001B). The Series 2001A Bonds were subject to optional tender by Bond holders. The Series 2001B Bonds were refunded and redeemed in 2006. The Alliance redeemed the 2001A Bonds and released a new Series 2001A to Bank of America Merrill Lynch during 2012.

Series 2000 Bonds: The Hospital First Mortgage Revenue Refunding (Series 2000A Bonds) and First Mortgage Revenue Refunding Bonds (Series 2000B Bonds), were used to advance refund previously existing indebtedness as well as fund a required debt service reserve fund. The Hospital First Mortgage Revenue Bonds (Series 2000C Taxable Bonds) were used to refinance certain mortgage indebtedness of BRMM, and to refund other previously existing indebtedness. The proceeds from the sale of the First Mortgage Bonds (Series 2000D Taxable Bonds) were used primarily to fund working capital for the Alliance.

The Series 2000A Bonds included at issue date $14,680 of insured Capital Appreciation Bonds. Such bonds bear a 0% coupon rate and have a yield of 6.625% annually. The Alliance recognizes interest expense and increases the amount of outstanding debt each year based upon this yield. Total principal and interest due at maturity (2026 through 2030) is $93,675.

Derecognized Bonds: The advance refunding of previously issued debt requires funds to be placed in irrevocable trusts in order to satisfy remaining scheduled principal and interest payments. Management, upon advice of legal counsel, believes the amounts deposited in such irrevocable trust accounts have contractually relieved the Alliance of any future obligations with respect to this debt, and the debt and escrowed securities are not considered liabilities or assets of the Alliance. Therefore, such debt has been derecognized.

Debt outstanding and not recognized in the Consolidated Balance Sheet at June 30, 2012 due to previous advance refundings of the Series 2000A Bonds, Series 2000B Bonds, Series 1998C Bonds, and Series 1991 Bonds, totaled approximately $483,625.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

The assets placed in the irrevocable trust accounts are also not recognized as assets of the Alliance. These assets consist primarily of various investments, as permitted by bond indentures and other documents, including United States Treasury obligations, an investment contract with MBIA Insurance Corporation (MBIA) in the original amount of $54,300, as well as the Series 2000C and 2000D Bonds which were purchased with the proceeds of the 2000A and 2000B Bonds specifically for the purpose of utilizing the Series 2000C and 2000D Bonds in the irrevocable trust. Therefore, certain of the assets held in the irrevocable trust accounts have future income streams contingent upon payments by the Alliance.

During 2012, the Alliance instructed the trustee of the 1998C Bonds to liquidate certain investments held in the related irrevocable trust account and to redeem a portion of the 1998C Bonds with the proceeds from the liquidation. The fair value of the liquidated assets exceeded the payment necessary to redeem the 1998C Bonds and the excess was paid to the Alliance. As a result of this transaction, the Alliance recognized a gain of $5,337, net of fees, which is included in other nonoperating gains (losses) in the accompanying 2012 Consolidated Statement of Operations.

Variable Rate Issuances: The variable rate of interest on the Series 2011, Series 2008 and Series 2007 Bonds is determined weekly by the Remarketing Agent, as the rate equal to the lowest rate which, in regard to general financial conditions and other special conditions bearing on the rate, would produce as nearly as possible a par bid for the Bonds in the secondary market. In no event shall the variable rate on the Bonds during any period where interest is calculated weekly exceed the lesser of 12% annually or the maximum contract rate of interest permitted by the applicable State of issue. The Alliance has the option, upon written approval of the holder of the letters of credit, the Remarketing Agent and others, to convert to a medium-term rate period or to a fixed rate.

Early Redemption: Essentially all of the Alliance's bonds are subject to redemption prior to maturity, including optional, mandatory sinking fund and extraordinary redemption, at various dates and prices as described in the respective Bond indentures and other documents.

Other Bonds, Notes Payable and Financing Arrangements: The Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding Bonds. The Bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. The JMH Series 2011 Hospital Refunding and Improvement Revenue Bonds are secured by pledged revenues of JMH, as defined in the Credit Agreement.

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

The scheduled maturities and mandatory sinking fund payments of the long-term debt and capital lease obligations (excluding interest), exclusive of net unamortized original issue discount and premium, at June 30, 2012 are as follows:

Year Ending June 30,		
2013	$	32,477
2014		33,414
2015		29,932
2016		31,315
2017		31,006
Thereafter		923,055
		1,081,199
Net discount		(624)
	$	1,080,575

The Alliance and JMH are each members of separate Obligated Groups. The bond indentures, master trust indentures, letter of credit agreements and loan agreements related to the various bond issues and notes payable contain covenants with which the respective Obligated Groups must comply. These requirements include maintenance of certain financial and liquidity ratios, deposits to trustee funds, permitted indebtedness, use of facilities and disposals of property. These covenants also require that failure to meet certain debt service coverage tests will require the deposit of all daily cash receipts of the Alliance into a trust fund. Management has represented the Alliance and JMH are in compliance with all such covenants at June 30, 2012.

In connection with the tax-exempt bonds, the Alliance is required every five years, and at maturity, to remit to the Internal Revenue Service amounts which are due related to positive arbitrage on the borrowed funds. The Alliance performs such computations when required and recognizes any liability at that time. Management does not believe there are any significant arbitrage liabilities at June 30, 2012 or 2011.

During 2012, the Alliance recognized a $2,636 loss on early extinguishment of debt representing the write off of previously deferred and unamortized financing costs generally related to the refinanced or otherwise redeemed portion of the Series 2007B Bonds, Series 1998 JMH Bonds and the Series 2001 NCH Bonds.

(Dollars in Thousands)

NOTE G--SELF-INSURANCE PROGRAMS

The Alliance is substantially self-insured for professional and general liability claims and related expenses. The Alliance maintains a $25,000 umbrella liability policy that attaches over the self-insurance limits of $10,000 per claim and a $15,000 annual aggregate retention. The Alliance's insurance program also provides professional liability coverage for certain affiliates and joint ventures.

The Alliance is also substantially self-insured for workers' compensation claims in the State of Tennessee and has established estimated liabilities for both reported and unreported claims. The Alliance maintains a stop-loss policy that attaches over the self-insurance limits of $1,000 per occurrence and $1,000 annual aggregate retention. In the State of Virginia, the Alliance is not self-insured and maintains workers' compensation insurance through commercial carriers.

At June 30, 2012, the Alliance is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through June 30, 2012 that may result in the assertion of additional claims, and other unreported claims may be asserted arising from services provided in the past. Alliance management has estimated and accrued for the cost of these unreported claims based on historical data and actuarial projections. The estimated net present value of malpractice and workers' compensation claims, both reported and unreported, as of June 30, 2012 and 2011 was $12,896 and $13,531, respectively. The discount rate utilized was 5% at June 30, 2012 and 2011.

Additionally, the Alliance is self-insured for employee health claims and recognizes expense each year based upon actual claims paid and an estimate of claims incurred but not yet paid, including a catastrophic claims reserve based on historical claims in excess of $75.

NOTE H--NET PATIENT SERVICE REVENUE

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the accompanying Consolidated Statements of Operations is as follows for the years ended June 30:

	2012	*2011*
Inpatient service charges	$ 2,095,036	$ 1,983,340
Outpatient service charges	1,982,154	1,791,858
Gross patient service charges	4,077,190	3,775,198

(Dollars in Thousands)

NOTE H--NET PATIENT SERVICE REVENUE - Continued

	2012	2011
Less:		
Estimated contractual adjustments and other discounts	2,899,678	2,640,909
Charity care	102,462	72,166
Provision for bad debts	122,917	116,248
	3,125,057	2,829,323
Net patient service revenue	$ 952,133	$ 945,875

Net patient service revenue by major payor source for the years ended June 30, 2012 and 2011, net of contractual allowances and self-pay discounts (before the provision for bad debts), is as follows:

	2012	2011
Third-party payors	$ 968,101	$ 957,828
Self-pay	106,949	104,295
Patient service revenue	$ 1,075,050	$ 1,062,123

Deductibles and copayments under third-party payment programs, which are included within the third-party payor amounts above, are the patient's responsibility and the Alliance considers these amounts in its determination of the provision for bad debts based on prior collection experience. Accounts receivable are also reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Alliance analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Alliance analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary, for expected uncollectible deductibles and copayments or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Alliance records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

NOTE H--NET PATIENT SERVICE REVENUE - Continued

The Alliance's allowance for doubtful accounts totaled $52,911 and $53,366 at June 30, 2012 and 2011, respectively. The allowance for doubtful accounts decreased from 28% of patient accounts receivable, net of contractual allowances, at June 30, 2011 to 26% of patient accounts receivable, net of contractual allowances, as of June 30, 2012. Write-offs, net of recoveries, for the years ending June 30, 2012 and 2011 were $123,373 and $108,823, respectively, and relate primarily to self-pay patients. Write-offs of third-party payor accounts were not significant in the years ending June 30, 2012 and 2011. The Alliance has not experienced significant changes in write-off trends and has not changed its charity care policy for the year ended June 30, 2012. The provision for bad debts associated with the Alliance's ancillary service lines are not significant.

NOTE I--THIRD-PARTY REIMBURSEMENT

The Alliance renders services to patients under contractual arrangements with Medicare, Medicaid, TennCare, Blue Cross and various other commercial payors. The Medicare program pays for inpatient services on a prospective basis. Payments are based upon diagnosis related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. The Alliance also receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid and other low income patients. Most Medicare outpatient services are reimbursed on a prospectively determined payment methodology. The Medicare program also reimburses certain other services on the basis of reasonable cost, subject to various prescribed limitations and reductions.

Reimbursement under the State of Tennessee's Medicaid waiver program (TennCare) for inpatient and outpatient services is administered by various managed care organizations (MCOs) and is based on diagnosis related group assignments, a negotiated per diem or fee schedule basis. The Alliance also receives additional supplemental payments from the State of Tennessee. The amount recognized totaled $11,300 and $11,480 for the years ended June 30, 2012 and 2011, respectively. In addition, during 2012 the Alliance recognized $4,894 from TennCare related to the implementation and meaningful use of electronic medical records as provided by the Health Information Technology for Economics and Clinical Health (HITECH) Act. Such payments are included within other operating revenue in the accompanying 2012 Consolidated Statement of Operations and are not guaranteed in future periods.

The Virginia Medicaid program reimbursement for inpatient hospital services is based on a prospective payment system using both a per case and per diem methodology. Additional payments are made for the allowable costs of capital. Payments for outpatient services are based on Medicare cost reimbursement principles and settled through the filing of an annual Medicaid cost report.

NOTE I--THIRD-PARTY REIMBURSEMENT - Continued

Amounts earned under the contractual agreements with the Medicare and Medicaid programs are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. 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. Activity with respect to audits and reviews of the governmental programs in the healthcare industry has increased and is expected to increase in the future. No additional specific reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts. Management believes that any adjustments from these increased audits and reviews will not have a material adverse impact on the consolidated financial statements. However, due to uncertainties in the estimation, it is at least reasonably possible that management's estimate will change in 2013, although the amount of any change cannot be estimated. The impact of final settlements of cost reports or changes in estimates decreased net patient service revenue by $1,556 and $4,570 in 2012 and 2011, respectively.

Participation in the Medicare program subjects the Alliance to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the program. Management believes that adequate provision has been made for any adjustments, fines or penalties which may result from final settlements or violations of other rules or regulations. Management has represented that the Alliance is in substantial compliance with these rules and regulations as of June 30, 2012.

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

NOTE J--EMPLOYEE BENEFIT PLANS

The Alliance sponsors a retirement plan (the Plan) which covers substantially all employees. The Plan is a defined contribution plan which consists mainly of employer-funded contributions. During 2012 and 2011, the Alliance made contributions to the Plan under a stratified system, whereby the Alliance's contribution percentage is based on each employee's years of service. Employees of certain other subsidiaries are covered by other plans, although such plans are not significant. The total expense related to defined contribution plans for the years ended June 30, 2012 and 2011 was $15,072 and $12,682, respectively.

NCH maintains a defined benefit pension plan and a post-retirement employee benefit plan. The accrued unfunded pension liability was $2,560 and $1,313, and the accrued unfunded post-retirement liability was $4,554 and $3,761 at June 30, 2012 and 2011, respectively.

(Dollars in Thousands)

NOTE J--EMPLOYEE BENEFIT PLANS - Continued

The Alliance sponsors a secured executive benefit program (SEBP) for certain key executives. Contributions to the plan by the Alliance are based on an annual amount of funding necessary to produce a target benefit for the participants at their retirement date, although the Alliance does not guarantee any level of benefit will be achieved. The Alliance contributed $1,734 and $929 to the plan during 2012 and 2011, respectively. Other assets at June 30, 2012 and 2011 include $9,675 and $7,888, respectively, related to the Alliance's portion of the benefits which are recoverable upon the death of the participant. In addition, the Alliance sponsors a Section 457(f) plan for certain key executives.

NOTE K--CONCENTRATIONS OF RISK

The Alliance has locations primarily in upper East Tennessee and Southwest Virginia which is considered a geographic concentration. The Alliance grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Net patient service revenue from Washington County, Tennessee operations were approximately 53% and 53% of total net patient service revenue for 2012 and 2011, respectively.

The mix of receivables from patients and third-party payors based on charges at established rates is as follows as of June 30:

	2012	*2011*
Medicare	36%	40%
Tenncare/Medicaid	14%	12%
Commercial	26%	27%
Other third-party payors	13%	9%
Patients	11%	12%
	100%	100%

Approximately 96% and 96% of the consolidated total revenue, gains and support were related to the provision of healthcare services during 2012 and 2011, respectively. Admitting physicians are primarily practitioners in the regional area.

Two of the Alliance's Virginia hospitals' employees are covered under collective bargaining agreements which extend through February 2014 and January 2015, respectively.

The Alliance routinely invests in investment vehicles as listed in Note C. The Alliance's investment portfolio is managed by outside investment management companies. Investments in corporate and

NOTE K--CONCENTRATIONS OF RISK - Continued

foreign bonds, municipal obligations, money market funds, equities and other vehicles that are held by safekeeping agents are not insured or guaranteed by the U.S. government. At June 30, 2012, the Alliance also had deposits in financial institutions significantly in excess of the Federal Deposit Insurance Corporation's limits.

NOTE L--INCOME TAXES

BRMM and its subsidiaries file a consolidated federal tax return and separate state tax returns. As of June 30, 2012 and 2011, BRMM and its subsidiaries had net operating loss carryforwards for consolidated federal purposes of $38,888 and $34,822, respectively, related to operating loss carryforwards which expire through 2031. At June 30, 2012 and 2011, BRMM had state net operating loss carryforwards of $69,999 and $65,979, respectively, which expire through 2026. The net operating loss carryforwards may be offset against future taxable income to the extent permitted by the Internal Revenue Code and Tennessee Code Annotated.

At June 30, 2012 and 2011, SWCH had federal and state net operating loss carryforwards of $5,614 and $4,875, respectively, which expire through 2031. The net operating loss carryforwards may be off-set against future taxable income to the extent permitted by the Internal Revenue Code and tax codes of the Commonwealth of Virginia.

Net deferred tax assets related to these carryforwards and other deferred tax assets have been substantially offset through valuation allowances equal to these amounts. Income taxes paid relate primarily to state taxes for certain subsidiaries and federal alternative minimum tax.

NOTE M--RELATED PARTY TRANSACTIONS

The Alliance enters into transactions with entities affiliated with certain members of the Board of Directors including transactions to construct Alliance facilities and provide professional services to the Alliance. Board members refrain from discussion and abstain from voting on transactions with entities with which they are related.

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES

Construction in Progress: Construction in progress at June 30, 2012 represents costs incurred related to various hospital and medical office building facility renovations and additions. The Alliance has outstanding contracts and other commitments related to the completion of these

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES - Continued

projects, and the cost to complete these projects is estimated to be approximately $100,312 at June 30, 2012. The Alliance does not expect any significant costs to be incurred for infrastructure improvements to assets held for resale.

Physician Contracts: BRMM employs physicians to provide services to BRMM's physician practices through employment agreements which provide annual compensation, plus incentives based upon specified productivity levels. These contracts have various terms.

In addition, the Alliance has entered into contractual relationships with non-employed physicians to provide services in Upper East Tennessee and Southwest Virginia. These contracts guarantee certain base payments and allowable expenses and have terms of varying lengths. Amounts drawn and outstanding under each agreement are treated as a loan bearing interest at various rates and are subject to repayment over a specified period. The physician notes may also be amortized by virtue of the physician's continued practice in the specified community during the repayment period. A net receivable of $1,436 and $1,407 related to these agreements is included in the accompanying Consolidated Balance Sheets at June 30, 2012 and 2011, respectively.

Employee Scholarships: The Alliance offers scholarships to certain individuals which require that the recipients return to the Alliance to work for a specified period of time after they complete their degree. Amounts due are then forgiven over a specific period of time as provided in the individual contracts. If the recipient does not return and work the required period of time, the funds disbursed on their behalf become due immediately and interest is charged until the funds are repaid. Other receivables at June 30, 2012 and 2011 include $8,005 and $7,250, respectively, related to students in school, graduates working at the Alliance and amounts due from others who are no longer in the scholarship program, net of allowance.

Promises to Give: The Alliance has recorded certain unconditional promises to give to unrelated organizations. At June 30, 2012, $1,354 is due within one year, and an additional $100 is due within five years and is included in other long-term liabilities.

Operating Leases and Maintenance Contracts: Total lease expense for the years ended June 30, 2012 and 2011 was $8,823 and $9,362, respectively. Future minimum lease payments for each of the next five years and in the aggregate for the Alliance's noncancellable operating leases with remaining lease terms in excess of one year are as follows:

(Dollars in Thousands)

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES - Continued

Year Ending June 30,		
2013	$	4,661
2014		4,476
2015		4,253
2016		3,997
2017		2,332
Thereafter		8,008
	$	27,727

Asset Retirement Obligation: The Alliance has identified asbestos in certain facilities and is required by law to dispose of it in a special manner if the facility undergoes major renovations or is demolished; otherwise, the Alliance is not required to remove the asbestos from the facility. The Alliance has complied with regulations by treating the asbestos so that it presents no known immediate or future safety concerns. An asset retirement obligation has been established to the extent that sufficient information exists upon which to estimate the liability.

Other: The Alliance is a party to various transactions and agreements in the normal course of business, which include purchase and re-purchase agreements, put arrangements and other commitments, which may bind the Alliance to undertake additional transactions or activities in the future. In addition, the Alliance has agreed to guarantee a portion of the outstanding indebtedness of a joint venture. Management estimates that the fair value of the guarantee of this debt is immaterial as of June 30, 2012.

Healthcare Industry: Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

In March 2010, Congress adopted comprehensive health care insurance legislation, *Patient Care Protection and Affordable Care Act* and *Health Care and Education Reconciliation Act*. The legislation, among other matters, is designated to expand access to coverage to substantively all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing TennCare and Medicaid coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

(Dollars in Thousands)

NOTE O--RENTAL INCOME UNDER OPERATING LEASES

The Alliance leases rental properties to third parties, most of whom are physician practices, for various terms, generally five years. The following is a schedule by year and in the aggregate of minimum future rental income due under noncancellable operating leases at June 30, 2012:

Year Ending June 30,		
2013	$	1,574
2014		1,454
2015		1,339
2016		762
2017		405
Thereafter		116
Total minimum future rentals	$	5,650

NOTE P--FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Alliance using available market information as of June 30, 2012 and 2011, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Alliance could realize in a current market exchange. The carrying value of substantially all financial instruments approximates fair value due to the nature or term of the instruments, except as described below.

Investment in Joint Ventures: It is not practical to estimate the fair market value of the investments in joint ventures.

Other Long-Term Liabilities: Estimates of reported and unreported professional liability claims, pension and post-retirement liabilities are discounted to approximate their estimated fair value. It is not practical to estimate the fair market value of other long-term liabilities due to uncertainty of when these amounts may be paid. Other long-term liabilities are not discounted.

Long-Term Debt and Capital Leases: The fair value of long-term debt is estimated based upon quotes obtained from brokers for bonds and discounted future cash flows using current market rates for other debt. For long-term debt with variable interest rates, the carrying value approximates fair value.

The Alliance's significant capital leases and vendor contracts were negotiated with various entities and are considered unique. It is not practicable to estimate the fair value of these obligations under current conditions. Other capital lease obligations are not significant.

(Dollars in Thousands)

NOTE P--FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The estimated fair value of the Alliance's financial instruments that have carrying values different from fair value is as follows at June 30:

	2012		*2011*	
	Carrying Value	*Estimated Fair Value*	*Carrying Value*	*Estimated Fair Value*
FINANCIAL LIABILITIES:				
Long-term debt	$ 1,080,575	$ 1,150,201	$ 1,069,085	$ 1,046,675

NOTE Q--FAIR VALUE MEASUREMENT

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation 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 based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

  Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The Alliance's Level 2 investments are valued primarily using the market valuation approach.

- Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Alliance's own assumptions.

In instances where the determination of the fair value hierarchy 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 Alliance'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.

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of June 30, 2012 and 2011:

(Dollars in Thousands)

NOTE Q--FAIR VALUE MEASUREMENT - Continued

		Total		*Level 1*		*Level 2*		*Level 3*
June 30, 2012								
Cash, cash equivalents and money market funds	$	85,017	$	85,017	$	-	$	-
U.S. Government securities		15,693		15,693		-		-
U.S. Agency securities		62,437		62,437		-		-
Corporate and foreign bonds		52,581		-		52,581		-
Municipal obligations		961		-		961		-
Preferred and asset backed securities		11,183		-		11,183		-
U.S. equity securities		28,344		28,344		-		-
Mutual funds		141,968		97,600		44,368		
Other		34,880		-		-		34,880
Total assets	$	433,064	$	289,091	$	109,093	$	34,880
Fair value of derivative agreements - Note D	$	(19,381)	$	-	$	-	$	(19,381)
June 30, 2011								
Cash, cash equivalents and money market funds	$	142,031	$	142,031	$	-	$	-
U.S. Government securities		11,204		11,204		-		-
U.S. Agency securities		34,054		34,054		-		-
Corporate and foreign bonds		32,895		-		32,895		-
Municipal obligations		451		-		451		-
Preferred and asset backed securities		8,945		-		8,945		-
U.S. equity securities		21,774		21,774		-		-
Mutual funds		166,708		73,060		93,648		-
Other		32,718		-		-		32,718
Total assets	$	450,780	$	282,123	$	135,939	$	32,718
Fair value of derivative agreements - Note D	$	(110,732)	$	-	$	-	$	(110,732)

The valuation of the Alliance's derivative agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses certain observable market-based inputs. The fair values of interest rate agreements are determined by netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates and the underlying notional amount. The Alliance also incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty's nonperformance or credit risk in the fair value measurements. The CVA on the Alliance's interest rate swap agreements at June 30, 2012 and 2011 resulted in a decrease in the fair value of the related liability of $5,726 and $7,940, respectively.

(Dollars in Thousands)

NOTE Q--FAIR VALUE MEASUREMENT - Continued

A certain portion of the inputs used to value its interest rate swap agreements, including the forward interest rate curves and market perceptions of the Alliance's credit risk used in the CVAs, are unobservable inputs available to a market participant. As a result, the Alliance has determined that the interest rate swap valuations are classified in Level 3 of the fair value hierarchy.

The following tables provide a summary of changes in the fair value of the Alliance's Level 3 financial assets and liabilities during the fiscal years ended June 30, 2012 and 2011:

	Trading Securities	*Derivatives, Net*
July 1, 2010	$ 28,608	$ (134,300)
Total unrealized/realized gains in the Performance Indicator, net	2,847	23,049
Net investment income	1,263	519
June 30, 2011	32,718	(110,732)
Total unrealized/realized gains in the Performance Indicator, net	1,466	(6,198)
Net investment income	1,221	515
Purchases	5,107	-
Settlements	-	97,034
Distributions	(5,632)	-
June 30, 2012	$ 34,880	$ (19,381)

There were no changes in valuation techniques in 2012 or 2011. During 2011, as part of the transitional test of goodwill impairment, the Alliance recognized goodwill impairment of $2,965 based primarily on the fair value of the reporting unit, utilizing the income approach. Remaining goodwill determined not to be impaired, for this specific reporting unit, is included in the Consolidated Balance Sheets at $2,900.

NOTE R--OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

The Alliance does not present expense information by functional classification because its resources and activities are primarily related to providing healthcare services. Further, since the Alliance receives substantially all of its resources from providing healthcare services in a manner similar to business enterprise, other indicators contained in these consolidated financial statements are considered important in evaluating how well management has discharged their stewardship responsibilities.

NOTE S--SUBSEQUENT EVENTS

In September 2012, the Alliance issued $55,000 (Series 2012A) fixed rate and $28,095 (Series 2012B) variable rate tax-exempt Hospital Revenue Bonds through The Health and Educational Facilities Board of the City of Johnson City, Tennessee, and $9,785 (Series 2012C) variable rate tax-exempt Hospital Revenue Bonds through the Industrial Development Authority of Wise, Virginia (collectively, the Series 2012 Bonds). The proceeds from the Series 2012A Bonds will be used to finance a surgery center project at JCMC and pay issuance costs related to these Bonds. The proceeds from the Series 2012B and 2012C Bonds will be used to finance or refinance capital improvements and equipment acquisitions and to pay issuance costs associated with these Bonds. The timely payment of the Series 2012B and Series 2012C Bonds is secured by irrevocable transferable direct-pay letters of credit.

In July 2012, the Trustee of the previously derecognized 1998C Bonds liquidated certain investments held in the related irrevocable trust account and redeemed a portion of the 1998C Bonds with the proceeds from the liquidation. The fair value of the liquidated assets exceeded the payment necessary to redeem the 1998C Bonds and the excess was paid to the Alliance. As a result of this transaction, the Alliance recognized a gain of $13,847, net of fees.

Subsequent to June 30, 2012, JMH exercised their purchase option related to a medical office building previously held under a capital lease. The purchase price was $17,529 which was financed through a taxable private placement bond issuance.

Supplemental Schedules

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet (Dollars in Thousands)

June 30, 2012

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Other Entities	Mountain States Properties	Eliminations	Total
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 1,482	$ 36,881	$ -	$ 38,363	$ 22,006	$ 4,738	$ -	$ 65,107
Current portion of investments	-	22,745	-	22,745	3	13,809	-	36,557
Patient accounts receivable, less estimated allowances for uncollectible accounts	5,051	116,629	-	121,680	29,010	-	-	150,690
Other receivables, net	1,624	18,852	-	20,476	3,120	412	(1,000)	23,008
Inventories and prepaid expenses	832	20,951	-	21,783	6,924	103	-	28,810
TOTAL CURRENT ASSETS	8,989	216,058	-	225,047	61,063	19,062	(1,000)	304,172
INVESTMENTS, less amounts required to meet current obligations	19,348	395,778	-	415,126	100,811	44,760	-	560,697
EQUITY IN AFFILIATES	143,050	318,231	(157,099)	304,182	-	-	(304,182)	-
PROPERTY, PLANT AND EQUIPMENT, net	13,559	598,415	-	611,974	199,990	53,492	-	865,456
OTHER ASSETS								
Goodwill	9,007	143,276	-	152,283	2,108	-	-	154,391
Net deferred financing, acquisition costs and other charges	302	26,776	-	27,078	602	507	-	28,187
Other assets	8,887	12,145	-	21,032	4,550	2,562	-	28,144
TOTAL OTHER ASSETS	18,196	182,197	-	200,393	7,260	3,069	-	210,722
	$ 203,142	$ 1,710,679	$ (157,099)	$ 1,756,722	$ 369,124	$ 120,383	$ (305,182)	$ 1,941,047

* Management Services Organization only

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet - Continued
(Dollars in Thousands)

June 30, 2012

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Other Entities	Mountain States Properties	Eliminations	Total
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Accrued interest payable	$ 46	$ 18,455	$ -	$ 18,501	$ 24	$ -	$ -	$ 18,525
Current portion of long-term debt and capital lease obligations	-	29,824	-	29,824	2,653	-	-	32,477
Current portion of estimated fair value of derivatives	-	-	-	-	-	10,395	-	10,395
Accounts payable and accrued expenses	4,191	94,352	-	98,543	9,297	1,030	-	108,870
Accrued salaries, compensated absences and amounts withheld	3,704	40,121	-	43,825	11,764	-	-	55,589
Payables to (receivables from) affiliates, net	15,321	3,118	-	18,439	8,365	(26,804)	-	-
Estimated amounts due to third-party payors, net	-	16,607	-	16,607	1,453	-	-	18,060
TOTAL CURRENT LIABILITIES	23,262	202,477	-	225,739	33,556	(15,379)	-	243,916
OTHER LIABILITIES								
Long-term debt and capital lease obligations, less current portion	13,676	994,014	-	1,007,690	41,408	-	(1,000)	1,048,098
Estimated fair value of derivatives, less current portion	-	8,534	-	8,534	133	319	-	8,986
Deferred revenue	-	2,929	-	2,929	205	-	-	3,134
Estimated professional liability self-insurance	2,268	5,975	-	8,243	1,101	-	-	9,344
Other long-term liabilities	6,837	9,839	-	16,676	146	-	-	16,822
TOTAL LIABILITIES	46,043	1,223,768	-	1,269,811	76,549	(15,060)	(1,000)	1,330,300
NET ASSETS								
Unrestricted net assets								
Mountain States Health Alliance	157,099	436,388	(157,099)	436,388	164,117	135,443	(299,560)	436,388
Noncontrolling interests in subsidiaries	-	39,123	-	39,123	117,377	-	6,459	162,959
TOTAL UNRESTRICTED NET ASSETS	157,099	475,511	(157,099)	475,511	281,494	135,443	(293,101)	599,347
Temporarily restricted net assets								
Mountain States Health Alliance	-	11,223	-	11,223	10,955	-	(10,955)	11,223
Noncontrolling interests in subsidiaries	-	50	-	50	(1)	-	1	50
TOTAL TEMPORARILY RESTRICTED NET ASSETS	-	11,273	-	11,273	10,954	-	(10,954)	11,273
Permanently restricted net assets	-	127	-	127	127		(127)	127
TOTAL NET ASSETS	157,099	486,911	(157,099)	486,911	292,575	135,443	(304,182)	610,747
	$ 203,142	$ 1,710,679	$ (157,099)	$ 1,756,722	$ 369,124	$ 120,383	$ (305,182)	$ 1,941,047

*Management Services Organization only.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Operations (Dollars in Thousands)

Year Ended June 30, 2012

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Other Entities	Mountain States Properties	Eliminations	Total
Revenue, gains and support:								
Patient service revenue, net of contractual allowances and discounts	$ 50,213	$ 824,899	$ (2,165)	$ 872,947	$ 202,108	$ -	$ (5)	$ 1,075,050
Provision for bad debts	(4,397)	(95,440)	-	(99,837)	(23,080)	-	-	(122,917)
Net patient service revenue	45,816	729,459	(2,165)	773,110	179,028	-	(5)	952,133
Other operating revenue	39,451	15,163	(29,595)	25,019	67,543	8,398	(61,553)	39,407
Equity in net gain (loss) of affiliates	3,332	(17,848)	(1,488)	(16,004)	-	-	16,004	-
TOTAL REVENUE, GAINS AND SUPPORT	88,599	726,774	(33,248)	782,125	246,571	8,398	(45,554)	991,540
Expenses:								
Salaries and wages	21,613	268,799	-	290,412	72,358	451	(4,614)	358,607
Physician salaries and wages	43,468	1,162	-	44,630	62,704	-	(41,628)	65,706
Contract labor	777	3,864	-	4,641	2,382	9	(657)	6,375
Employee benefits	7,416	51,007	(2,236)	56,187	17,510	85	(4,182)	69,600
Fees	4,025	100,938	(29,034)	75,929	25,946	517	(4,433)	97,959
Supplies	2,454	135,733	-	138,187	32,124	40	(165)	170,186
Utilities	626	12,222	-	12,848	3,476	965	-	17,289
Other	7,538	47,568	(490)	54,616	23,471	4,077	(5,879)	76,285
Depreciation	1,395	49,959	-	51,354	19,458	2,248	-	73,060
Amortization	30	2,161	-	2,191	54	-	-	2,245
Interest and taxes	(1,169)	42,976	-	41,807	3,018	1,112	(34)	45,903
TOTAL EXPENSES	88,173	716,389	(31,760)	772,802	262,501	9,504	(61,592)	983,215
OPERATING INCOME (LOSS)	426	10,385	(1,488)	9,323	(15,930)	(1,106)	16,038	8,325
Nonoperating gains (losses):								
Interest and dividend income	673	10,841	-	11,514	2,401	1,332	(34)	15,213
Net realized gains (losses) on the sale of securities	21	611	-	632	(3,227)	-	-	(2,595)
Change in net unrealized gains on securities	(455)	(3,758)	-	(4,213)	133	1,196	-	(2,884)
Derivative related income	-	6,051	-	6,051	-	1,464	-	7,515
Loss on early extinguishment of debt	-	(2,553)	-	(2,553)	(83)	-	-	(2,636)
Change in estimated fair value of derivatives	-	(6,086)	-	(6,086)	(133)	21	-	(6,198)
Other nonoperating gains (losses)	823	12,485	-	13,308	(1,977)	(95)	-	11,236
NET NONOPERATING GAINS	1,062	17,591	-	18,653	(2,886)	3,918	(34)	19,651
EXCESS (DEFICIT) OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ 1,488	$ 27,976	$ (1,488)	$ 27,976	$ (18,816)	$ 2,812	$ 16,004	$ 27,976

*Management Services Organization only.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Changes in Net Assets (Dollars in Thousands)

Year Ended June 30, 2012

	Blue Ridge Medical Management *	Other Obligated Group Members			Total Obligated Group	Other Entities		Total Other Entities	Mountain States Properties	Eliminations	Total
		Mountain States Health Alliance	Noncontrolling Interests	Eliminations		Mountain States Health Alliance	Noncontrolling Interests				
UNRESTRICTED NET ASSETS:											
Excess (deficit) of revenue, gains and support over expenses and losses	$ 1,488	$ 31,702	$ (3,726)	$ (1,488)	$ 27,976	$ (12,729)	$ (6,087)	$ (18,816)	$ 2,812	$ 16,004	$ 27,976
Pension and other defined benefit plan adjustments	-	(1,119)	(1,115)	-	(2,234)	(9)	(9)	(18)	-	18	(2,234)
Net assets released from restrictions used for the purchase of property, plant and equipment	-	1,550	-	-	1,550	1,550	-	1,550	-	(1,550)	1,550
Distributions to noncontrolling interests	-	-	(324)	-	(324)	-	(324)	(324)	-	324	(324)
Repurchases of noncontrolling interests	-	3,860	(3,860)	-	-	-	-	-	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	1,488	35,993	(9,025)	(1,488)	26,968	(11,188)	(6,420)	(17,608)	2,812	14,796	26,968
TEMPORARILY RESTRICTED NET ASSETS:											
Restricted grants and contributions	-	3,860	39	-	3,899	3,036	12	3,048	-	(3,048)	3,899
Net assets released from restrictions	-	(3,352)	(46)	-	(3,398)	(3,255)	(22)	(3,277)	-	3,277	(3,398)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	-	508	(7)	-	501	(219)	(10)	(229)	-	229	501
INCREASE (DECREASE) IN TOTAL NET ASSETS	1,488	36,501	(9,032)	(1,488)	27,469	(11,407)	(6,430)	(17,837)	2,812	15,025	27,469
NET ASSETS, BEGINNING OF YEAR	155,611	411,237	-	(155,611)	411,237	239,164	172,041	411,205	132,631	(371,795)	583,278
ADDITION OF OBLIGATED MEMBERS	-	-	54,025	-	54,025	(52,559)	(54,054)	(106,613)	-	52,588	-
NET ASSET TRANSFER	-	-	(5,820)	-	(5,820)	-	5,820	5,820	-	-	-
NET ASSETS, END OF YEAR	$ 157,099	$ 447,738	$ 39,173	$ (157,099)	$ 486,911	$ 175,198	$ 117,377	$ 292,575	$ 135,443	$ (304,182)	$ 610,747

*Management Services Organization only.

NOTE A--OBLIGATED GROUP MEMBERS

As described in Note F to the consolidated financial statements, the Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding bonds. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. In accordance with Article Six, Section 6.6 of the Amended and Restated Master Trust Indenture between Mountain States Health Alliance and the Bank of New York Mellon Trust Company, NA as Master Trustee, those members pledged in 2011 include Johnson City Medical Center Hospital, Indian Path Medical Center, Franklin Woods Community Hospital, Sycamore Shoals Hospital, Johnson County Community Hospital, Russell County Medical Center and Blue Ridge Medical Management Corporation (parent company only), collectively defined as the Obligated Group (Obligated Group). In 2012, NCH and SCCH (hospitals only) were admitted into the Obligated Group. These entities' operations since admission (including noncontrolling interests) are included as part of the Obligated Group results for 2012 in the accompanying consolidated statements of operations and changes in net assets.

The supplemental consolidating schedules include the accounts of the members of the Obligated Group after elimination of all significant intergroup accounts and transactions. Certain other subsidiaries of the Alliance, Mountain States Properties, Inc. (MSP) and all other affiliates (Other Entities), are not pledged to secure the payment of the outstanding bonds as they are not part of the Obligated Group. These affiliates have been accounted for within the Obligated Group based upon the Alliance's original and subsequent investments, as adjusted for the Alliance's pro rata share of income or losses and any distributions, and are included as a part of equity in affiliates in the supplemental consolidating balance sheet.

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APPENDIX C

SUMMARY OF THE FINANCING DOCUMENTS

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SUMMARY OF THE FINANCING DOCUMENTS

Brief descriptions of the Master Indenture, each Bond Indenture and each Loan Agreement are included in this Appendix C to the Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Master Indenture, the Bond Indenture and the Loan Agreement are qualified in their entirety by reference to each such document, copies of which are available for review at the offices of the Mountain States Health Alliance, Legal Department, 400 North State of Franklin Road, Johnson City, Tennessee. All references to the Bonds of any Series are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto included in the Master Indenture or the Bond Indenture.

USE OF CERTAIN TERMS

The Health and Educational Facilities Board of the City of Johnson City, Tennessee (the "Issuer") is issuing its Hospital Revenue Bonds (Mountain States Health Alliance) Series 2013A (the "Series 2013A Bonds") pursuant to a Bond Trust Indenture (the "Series 2013A Bond Indenture") dated as of July 1, 2013, between the Issuer and The Bank of New York Mellon Trust Company, N.A. (the "Bond Trustee") and lending the proceeds thereof to the Mountain States Health Alliance (the "Alliance") pursuant to a Loan Agreement (the "Series 2013A Loan Agreement") dated as of July 1, 2013, between the Alliance and the Issuer. U.S. Bank National Association (the "Bank") is issuing its Letter of Credit (the "Series 2013A Original Letter of Credit") as security for the Series 2013A Bonds.

The Issuer is issuing its Taxable Hospital Refunding Revenue Bonds (Mountain States Health Alliance) Series 2013B (the "Series 2013B Bonds") pursuant to a Bond Trust Indenture (the "Series 2013B Bond Indenture") dated as of July 1, 2013, between the Issuer and the Bond Trustee and lending the proceeds thereof to the Alliance pursuant to a Loan Agreement (the "Series 2013B Loan Agreement") dated as of July 1, 2013, between the Alliance and the Issuer. The Bank is issuing its Letter of Credit (the "Series 2013B Original Letter of Credit") as security for the Series 2013B Bonds.

As used in this Appendix, the terms "Loan Agreement," "Bond Indenture," and "Original Letter of Credit" shall refer individually, not collectively, to the Series 2013A Loan Agreement, the Series 2013B Loan Agreement, the Series 2013A Bond Indenture, the Series 2013B Bond Indenture, the Series 2013A Original Letter of Credit and the Series 2013B Original Letter of Credit. For avoidance of doubt, the terms, security, funds and payments under the Series 2013A Loan Agreement, the Series 2013A Bond Indenture and the Series 2013A Original Letter of Credit relate only to the Series 2013A Bonds. Similarly, the terms, security, funds and payments under the Series 2013B Loan Agreement, the Series 2013B Bond Indenture and the Series 2013B Original Letter of Credit relate only to the Series 2013B Bonds.

DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used in the Master Indenture, the Bond Indenture, the Loan Agreement and this Official Statement.

"Accountant" shall mean an independent, certified public accountant, or a firm of independent, certified public accountants, selected by the Borrower.

"Act of Bankruptcy" means any of the following events:

(a) The Alliance or the Issuer shall (1) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the Alliance or the Issuer or of all or a substantial part of the property of any of them, (2) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect) or (3) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(b) A proceeding or case shall be commenced, without the application or consent of the Alliance or the Issuer, as the case may be, in any court of competent jurisdiction, seeking (1) the liquidation, reorganization, dissolution, winding-up, or the composition or adjustment of debts, of the Alliance or the Issuer, (2) the appointment of a trustee, receiver, custodian, liquidator or the like of the Alliance or the Issuer or of all or any substantial part of the assets of either the Alliance or the Issuer, or (3) similar relief in respect of the Alliance or the Issuer under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect for a period of 60 days from the commencement of such proceeding or case.

"Additional Indebtedness" means any Indebtedness (including all Obligations, other than the Initial Obligation) incurred by any Obligated Issuer, subsequent to its becoming an Obligated Issuer.

"Adjustment Date" means the first day of each Weekly Rate Period and each Medium-Term Rate Period.

"Affiliate" of any specified person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For purposes of this definition, (i) "control" when used with respect to any specified person means the power to direct the management and policies of such person, directly or indirectly, whether through ownership of voting securities, by contract, or otherwise; and (ii) the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authorized Denominations" means prior to the Conversion Date, $100,000 or any integral multiple of $5,000 in excess thereof, provided that, with the written consent of the Issuer, "Authorized Denominations" shall mean after the Conversion Date, $5,000 or any integral multiple thereof.

"Balloon Indebtedness" means: (a) Long-Term Indebtedness as to which, when issued, 25% or more of the debt service thereon is due in a single year, or (b) Long-Term Indebtedness as to which, when issued, 25% or more of the original principal amount thereof may, at the option of the holder or registered owner thereof, be redeemed or repurchased at one time, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such date, or (c) any Guaranty of Long-Term Indebtedness that is Balloon Indebtedness.

"Bank" means U.S. Bank National Association, a national banking association, in its capacity as issuer of the Original Letter of Credit, its successors in such capacity and their assigns, until the Termination Date of the Original Letter of Credit and the payment in full to the Bank of all amounts owed to it under the Reimbursement Agreement and other related documents; provided, however, that upon the effective date of a Substitute Letter of Credit, "Bank" means the issuer of such Substitute Letter of Credit, its successors in such capacity and their assigns until the Termination Date of such Substitute Letter of Credit and the payment in full to such Bank of all amounts owed to it under the Reimbursement Agreement, if any, relating to such Substitute Letter of Credit.

"Bonds" means individually the Series 2013A Bonds and the Series 2013B Bonds.

"Bond Indenture" means individually the Series 2013A Bond Indenture and the Series 2013B Bond Indenture.

"Bond Index" means the "Bond Buyer Revenue Bond Index" as published from time to time in The Bond Buyer, or, if such index shall no longer be published, a comparable index designated by the Bond Insurer during the period that any Related Bonds are outstanding that are insured by the Bond Insurer and thereafter by the Obligated Group Agent.

"Bond Insurer" means MBIA Insurance Corporation and its successor or successors, as insurer of certain Related Bonds.

"Bond Trustee" means The Bank of New York Mellon Trust Company, N.A. or any successor trustee under the Bond Indenture.

“Bondholder”, “Owner”, “owner”, “Holder” or “holder” or any similar term, when used with reference to any of the Bonds, means (i) in the event that the book-entry system of evidence and transfer of ownership of the Bonds is employed pursuant to the Bond Indenture, Cede & Co., as nominee for DTC, or its nominee, and (ii) in all other cases, the registered owner or owners of any Bond as shown on the registration books maintained by the Bond Trustee.

“Book Value,” when used in connection with Property of any member of the Obligated Group, means the cost of such Property, net of accumulated depreciation, calculated in conformity with generally accepted accounting principles, and when used in connection with Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property of all members of the Obligated Group determined in such a manner that no portion of such value of Property of any member of the Obligated Group is included more than once.

“Borrower Bond” means any Bond registered in the name of the Alliance; provided, however, that in no event shall a Pledged Bond be deemed to be a Borrower Bond.

“Business Day” means any day other than a Saturday, Sunday or other day on which the New York Stock Exchange or banks are authorized or obligated by law or executive order to close in New York, New York, or any city in which the principal corporate trust office of the Bond Trustee is located or the office of the Bank at which demands for a draw on, or a borrowing or payment under, the Letter of Credit will be made, which for purposes of the Original Letter of Credit is St. Louis, Missouri.

“Cash to Debt Ratio” means the ratio of Unrestricted Liquid Funds to Long Term Indebtedness.

“Chattel Paper” shall have the meaning assigned that term under the Uniform Commercial Code as in effect in any relevant jurisdiction.

“Code” means the Internal Revenue Code of 1986, as amended, as it applies to the Bonds, including applicable regulations and revenue rulings thereunder. Reference herein to sections of the Code are to the sections thereof as they exist on the date of execution of the Bond Indenture, but include any successor provisions thereof.

“Collateral” means (i) all Receivables, (ii) all Inventory, (iii) all Equipment, (iv) all General Intangibles, (v) all Contracts and all Contract rights, (vi) all amounts from time to time held in any checking, savings, deposit or other account of any Obligated Issuer, (vii) all Government Approvals, provided, that any Government Approval which by its terms or by the operation of law would become void, voidable, terminable or revocable if mortgaged, pledged or signed under the Master Indenture or if a security interest therein were granted under the Master Indenture or expressly accepted and excluded from the security interest by the Master Indenture granted to the extent necessary so as to avoid such voidness, voidability, terminability or revocability, (viii) all Fixtures, including but not limited to those now or hereafter attached to, placed on or incorporated in the Land, (ix) all Revenues, (x) without limiting the generality of the foregoing, all other personal property, goods, Instruments, Chattel Paper, Documents, credits, claims, demands and assets of any Obligated Issuer, whether now existing or hereafter acquired from time to time, and (xi) any and all additions and accessions to any of the foregoing, all improvements thereto, all substitutions and replacements therefor and all products and Proceeds thereof.

“Commitment Indebtedness” means the obligation of any person to repay amounts disbursed pursuant to a Credit Facility to pay when due such person’s obligations under Indebtedness incurred in accordance with the provisions of the Master Indenture.

“Completion Indebtedness” means any Long-Term Indebtedness (i) incurred by any person for the purpose of financing the completion of constructing or equipping Facilities with respect to which Long-Term Indebtedness was theretofore incurred in accordance with the provisions hereof, and (ii) with a principal amount not in excess of the amount required (a) to provide a completed and equipped Facility of substantially the type and scope contemplated at the time such prior Long-Term Indebtedness was incurred, (b) to provide for capitalized interest during the period of construction, (c) to capitalize a reserve with respect to such Completion Indebtedness and (d) to pay the costs and expenses of issuing such Completion Indebtedness.

“Construction Index” means the health care component of the implicit price deflator for the gross national product as most recently reported prior to the date in question by the United States Department of Commerce or its successor agency, or, if such index is no longer published, such other index which is certified to be comparable and appropriate by the Obligated Group Agent in an Officer’s Certificate delivered to the Master Trustee.

“Contract Rights” means all rights under any Contract to make determinations, to exercise any election (including, but not limited to, election of remedies) or option or to give or receive any notice, consent, waiver or approval together with full power and authority with respect to any Contract to demand, receive, enforce, collect or receipt for any of the foregoing rights or any property the subject of any of the Contracts, to enforce or execute any checks, or other instruments or orders, to file any claims and to take any action which, in the reasonable opinion of a secured party, may be necessary or advisable in connection with any of the foregoing.

“Contracts” means all contracts to which any Obligated Issuer now is, or hereafter will be, bound, or a party, beneficiary or assignee, including, without limitation, all instruments, agreements and documents executed and delivered with respect to such contracts, and all revenues, rentals, Proceeds and other sums of money due and to become due from any of the foregoing, as the same may be modified, supplemented or amended from time to time in accordance with their terms.

“Consultant” means a person who or which is appointed by the Obligated Group Agent for the purpose of passing on questions relating to the financial affairs, management or operations of one or more members of the Obligated Group or the entire Obligated Group and, in the good faith opinion of the Obligated Group Agent, has a favorable reputation for skill and experience in performing similar services in respect of entities engaged in reasonably comparable endeavors. If any Consultant’s report or opinion is required to be given with respect to matters partly within and partly without the expertise of such Consultant, such Consultant may rely upon the report or opinion of another Consultant, which other Consultant shall be reasonably satisfactory to the relying Consultant and the Obligated Group Agent.

“Conversion Date” means the Interest Payment Date on which the Bonds begin to bear interest at the Fixed Rate.

“Corporation” or “Alliance” means Mountain States Health Alliance, a Tennessee not-for-profit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

“Counsel” means an attorney, or firm thereof, admitted to practice law before the highest court of any state in the United States of America or the District of Columbia.

“Credit Facility” means any letter of credit, line of credit, insurance policy, guaranty or other agreement constituting a credit enhancement or liquidity facility which is issued by a bank, trust company, savings and loan association or other institutional lender, insurance company or surety company for the benefit of the holder of any Indebtedness in order to provide a source of funds for, the payment of all or any portion of an Obligated Issuer’s payment obligations under such Indebtedness.

“Days’ Cash-on-Hand Ratio,” as of the end of any Fiscal Year, means the product obtained by multiplying 365 times (i) the Unrestricted Liquid Funds of the Obligated Group as of the last day of such Fiscal Year, divided by (ii) the total operating expenses of the Obligated Group for such Fiscal Year, excluding depreciation and amortization expense and bad debt expense, as shown on the financial statements of the Obligated Group for such Fiscal Year.

“Debt Service Requirement” of any person means, for any period of time, the amounts payable or the payments required to be made by such person in respect of principal and interest on outstanding Long-Term Indebtedness during such period (calculated in such a manner that no portion of Long-Term Indebtedness is included more than once), taking into account (for purposes of calculating any projected debt service requirements) (i) that any Indebtedness represented by a Guaranty shall be deemed payable on the dates and in the amounts contemplated in the Master Indenture (concerning the assumptions to be used in including debt service requirements of the guaranteed obligations), (ii) that any payments to be made in respect of Balloon Indebtedness and Variable

Rate Indebtedness shall be calculated in accordance with the provisions of the Master Indenture, (iii) that, with respect to Indebtedness refunded or refinanced during such period, only an amount of principal and interest equal to the principal and interest not payable from the proceeds of Indebtedness shall be taken into account during such period, (iv) any amounts payable from funds available under an Escrow Deposit (other than amounts so payable solely by reason of the obligor's failure to make payments from other sources), shall be excluded from the determination of the Debt Service Requirement, and (v) that with respect to any Indebtedness which is the subject of a Hedge Agreement, any Regular Scheduled Qualified Swap Payments under such Hedge Agreement (provided, however, that if the Regular Scheduled Qualified Swap Payments are variable rate payments, interest shall be calculated as if the indebtedness was Variable Rate Indebtedness) payable or receivable with respect to such Indebtedness shall be taken into account in determining the interest payable with respect to such Indebtedness.[1*]

"Default" means any event which with the giving of notice or lapse of time, or both, would constitute an Event of Default.

"Defeasance Investments" means non-redeemable direct obligations of the United States of America or obligations for which the full faith and credit of the United States of America are pledged for the timely payment of principal and interest, including evidences of a direct ownership interest in future interest or principal payments on such obligations, which obligations are held in a custody account by a custodian pursuant to the terms of a custody agreement.

"Discounted Indebtedness" means Indebtedness sold to the original purchaser thereof (other than any underwriter or other similar intermediary) at a discount from the par amount of such Indebtedness.

"Document" shall have the meaning assigned that term under the Uniform Commercial Code as in effect in any relevant jurisdiction.

"Eligible Moneys" means (a) proceeds of Bonds not sold to the Alliance or the Issuer or an affiliate of the Alliance or the Issuer, (b) moneys irrevocably drawn under the Letter of Credit, (c) moneys deposited with the Bond Trustee by the Alliance for the benefit of the Bondholders for 123 days during which no Act of Bankruptcy has occurred as evidenced by a certificate of the Alliance or Issuer, (d) moneys with respect to which the Alliance delivers to the Bond Trustee an Opinion of Counsel with nationally recognized expertise in bankruptcy acceptable to the Bond Trustee and Moody's that such payments will not constitute a voidable transfer or preference under and pursuant to Sections 362a, 541 or 547 of the Federal Bankruptcy Code and (e) investment income on the foregoing types of money.

"Equipment" means any "equipment," as such term is defined in the Uniform Commercial Code as in effect in any relevant jurisdiction, now or hereafter owned or leased by any Obligated Issuer and, in any event, shall include, but shall not be limited to, all equipment used in connection with the facilities constructed from time to time on the Land, all machinery, tools, office equipment, furniture, furnishings, fixtures, vehicles, motor vehicles, and any manuals, instructions, blueprints, computer software and similar items which relate to the above, and any and all additions, substitutions and replacements of any of the foregoing, wherever located, together with all improvements thereon and all attachments, components, parts, equipment and accessories installed thereon or affixed thereto.

[1*] By their purchase of the Bonds, the initial holders thereof will consent to an amendment of this definition as described in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Amendment of the Master Indenture" in the front part of this Official Statement. The proposed amended definition is as follows:

[1]"Debt Service Requirement" of any Person shall mean, for any period of time, the amounts payable or the payments required to be made by such Person in respect of principal and interest on Outstanding Long-Term Indebtedness during such period (calculated in such a manner that no portion of the Long-Term Indebtedness is included more than once), taking into account (for purposes of calculating any projected debt service requirements) (i) that any Indebtedness represented by a Guaranty shall be deemed payable on the dates and in the amounts contemplated in Section 4.3 (concerning the assumptions to be used in including debt service requirements of the guaranteed obligations), (ii) that any payments to be made in respect of Balloon Indebtedness and Variable Rate Indebtedness shall be calculated in accordance with the provisions of Section 4.4, (iii) that, with respect to Indebtedness refunded or refinanced during such period, only an amount of principal and interest equal to the principal and interest not payable from the proceeds of Indebtedness shall be taken into account during such period, (iv) any amounts payable from funds available under an Escrow Deposit (other than amounts payable solely by reason of the obligor's failure to make payments from other sources), shall be excluded from the determination of the Debt Service Requirement, and (v) that with respect to any Indebtedness which is the subject of a Hedge Agreement, the rate payable under such Hedge Agreement, rather than the actual interest payable on such Indebtedness, shall be taken into account in determining the interest payable with respect to such Indebtedness.

"Escrow Deposit" means a segregated escrow fund or other similar fund, account or deposit in trust of cash in an amount (or Defeasance Investments the principal of and interest on which will be in an amount), and under terms, sufficient to pay all or a portion of the principal of, and premium, if any, and interest on, the indebtedness secured by such escrow fund or other similar fund, account or deposit as the same shall become due or payable upon redemption.

"Event of Default" shall, with respect to each Bond Indenture and each Loan Agreement, respectively, have the meanings described under this Appendix C in "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Events of Default" and "THE LOAN AGREEMENT- Events of Default And Remedies on Default."

"Facilities" means all land, leasehold interests and buildings and all fixtures and equipment of a person.

"Fair Value Net Worth" of a person as of any date means:

(i) the fair value or fair saleable value (as the case may be, determined in accordance, with applicable federal and state laws affecting creditors rights and governing determinations of insolvency of debtors) of such person's assets (including such person's rights to contribution and subrogation under Sections 2.3(d) and (f) of the Master Indenture or in respect of any other guarantee) as of such date, minus

(ii) the amount of all liabilities of such person (determined in accordance with such laws) as of such date, excluding (x) such person's Cross Guarantee and (y) any liabilities subordinated in right of payment to such Cross Guarantee, minus

(iii) $1.00.

"Fiscal Year" means a period of twelve consecutive months ending on June 30 or on such other date as may be specified in an Officer's Certificate of the Obligated Group Agent executed and delivered to the Master Trustee.

"Fitch" means Fitch Ratings, Inc., its successors and assigns; and if such corporation shall be dissolved or liquidated or shall no longer perform the function of a municipal securities rating agency, "Fitch" shall be deemed to refer to any other recognized municipal securities rating agency designated by the Alliance.

"Fixed Rate Period" means the period from and including the Conversion Date to and including the date next preceding the payment in full of the Bonds.

"Fixtures" shall have the meaning assigned that term under the Uniform Commercial Code as in effect in any relevant jurisdiction and in any event shall include all goods now or hereafter attached to, placed on, or incorporated in the Land.

"General Intangibles" means "general intangibles" as such term is defined in the Uniform Commercial Code as in effect in any relevant jurisdiction, now or hereafter owned by any Obligated Group Issuer and shall include, but not be limited to, all trademarks, trademark applications, trademark registrations, trade names, fictitious business names, business names, company names, business identifiers, prints, labels, trade styles and service marks (whether or not registered), including logos and/or designs, copyrights, patents, patent applications, goodwill of any Obligated Issuer's business symbolized by any of the foregoing, trade secrets, license rights, license agreements, permits, franchises, and any rights to tax refunds to which any Obligated Issuer is now or hereafter may be entitled.

"Governing Body" means, when used with respect to any person, its board of directors, board of trustees, or other board, committee or group of individuals in which the powers of a board of directors or board of trustees is vested generally or for the specific matters under consideration.

"Government Issuer" means any federal, state or municipal corporation or political subdivision thereof or any instrumentality of any of the foregoing empowered to issue obligations on behalf thereof.

"Government Obligations" means (i) for purposes of the Master Indenture, direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, including evidences of a direct ownership interest in future interest or principal payments on obligations issued or guaranteed by the United States of America, which obligations are held in a custody account by a custodian pursuant to the terms of a the terms of a custody agreement, and (ii) for purposes of the Bond Indenture, means direct general obligations of, or obligations the prompt payment of the principal of and the interest on which are fully and unconditionally guaranteed by, the United States of America. In addition, investments having a maturity of seven days or less in a money market fund rated Aaa by Moody's, investments of which fund are exclusively in Government Obligations, shall be considered investments in Government Obligations for purposes of the Bond Indenture.

"Gross Receipts" means all Revenues, operating revenues and non-operating revenues, receipts, rentals and income of, or received by, any Obligated Issuer, under generally accepted accounting principles, and all rights to receive the same, whether in the form of accounts receivable, Receivables, accounts, Documents, Investment Property, Contract Rights, Chattel Paper, Instruments, General Intangibles or other rights and all Proceeds thereof, including insurance proceeds and condemnation awards payable or paid in respect of the Facilities, whether now existing or hereafter coming into existence and whether now owned or hereafter acquired, and the proceeds thereof including, without limitation, revenues derived from the ownership, operation or leasing of the Facilities; provided, however, that there shall be excluded from Gross Receipts (i) all gifts, grants, bequests, donations or contributions (collectively, "gifts"), which gifts may not be pledged or applied to the payment of principal or interest on the Obligations as a result of restrictions or designations imposed by the donor or maker of the gift in question at the time of the making thereof and income therefrom if such income may not be pledged or applied to the payment of principal or interest on the Obligations as a result of a restriction or designation described in this clause (i), and (ii) any proceeds of any additional indebtedness incurred or assumed by the Obligated Issuer pursuant to the terms of the Master Indenture, to the extent required by the terms of the documentation evidencing such additional indebtedness.

"Guaranty" means any obligation of an Obligated Group member guaranteeing any obligation of any other person other than a Obligated Group member, whether or not issued under the Master Indenture as an Indenture Guaranty, which obligation would, if such other person were a member of the Obligated Group, constitute Indebtedness under the Master Indenture.

"Hedge Agreement" means (a) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (b) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (c) any contract to exchange cash flows or payments or series of payments; (d) any type of contract called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (e) any other type of contract or arrangement that the Obligated Group Agent determines is to be used, to manage or reduce the cost of an Indebtedness, to convert any element of any Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty.

"Historical Debt Service Coverage Ratio" means, for any period of time, the ratio determined by dividing Total Income Available For Debt Service for such period by the Debt Service Requirement of the Obligated Group for such period.

"Historical Maximum Annual Debt Service Coverage Ratio" means, for any period of time, the ratio determined by dividing Total Income Available for Debt Service for such period by the Maximum Annual Debt Service of the Obligated Group.

"Historical Pro Forma Debt Service Coverage Ratio" means for any period of time, the ratio determined by dividing Total Income Available for Debt Service for such period by the Maximum Annual Debt Service of the Obligated Group for all Long Term Indebtedness then outstanding and the Long-Term Indebtedness then proposed to be issued.

"Holder" means, as the context requires, the registered owner of any Note, the beneficiary of any Indenture Guaranty in whose name an Indenture Guaranty is issued or the holder or beneficiary of any other type of Obligation. In the case of an Obligation issued to a trustee or other fiduciary acting on behalf of the holders of any bonds, notes or other similar obligations which are secured by such Obligation, including any registered securities depositary then in the business of holding (for the benefit of beneficial owners whose interests may be evidenced by book-entry registration) substantial amounts of obligations of types comprising the Obligations, the term Holder shall mean the trustee or other fiduciary or, if so provided in the Related Financing Documents, the holders of the Related Bonds in proportion to their respective interests therein, including any registered securities depositary then in the business of holding (for the benefit of beneficial owners whose interests may be evidenced by book-entry registration) substantial amounts of obligations of types comprising the Obligations. For purposes of determining the Holders of the two largest principal amounts of Uninsured Obligations, any Holder of Related Bonds relating to Uninsured Obligations shall be deemed to be the owner of a proportionate amount of the Uninsured Obligations, and any such Uninsured Obligations owned by affiliated entities shall be treated as owned by one Holder.

"Immediate Notice" means notice (a) by tested telex, telecopier or telephone, or delivery by hand, (b) promptly followed by written notice by first class mail, postage prepaid, and (c) to such address or such telex, telecopier or telephone number as the person receiving such notice shall have previously furnished to the Bond Trustee in writing.

"Income Available For Debt Service" of a person means, with respect to any period of time, the excess of revenues over expenses, or, in the case of for-profit entities, net income before tax, as determined in accordance with generally accepted accounting principles, to which shall be added, in either case, (i) depreciation, (ii) amortization, (iii) interest expense on Long-Term Indebtedness, and, to the extent not already included, and (iv) to the extent not already included contributions and donations and from which shall be excluded any extraordinary items, any impairment losses, any gain or loss resulting from either the extinguishment of indebtedness or the sale, exchange or other disposition of assets not made in the ordinary course of business, provided, however, that (a) no determination of Income Available for Debt Service will take into account any gains or losses resulting from the periodic valuation of investments or Hedge Agreements that do not involve the sale, transfer or other disposition of any such investment or Hedge Agreement or the termination of any Hedge Agreement and (b) a person may include in its net income such person's share of the net income of any person controlled by such person or in whom such person has a legal interest.

"Indebtedness" of a person means (i) all Notes and Guaranties, (ii) all liabilities (exclusive of reserves such as those established for deferred taxes or litigation) recorded on the audited financial statements of such person as of the end of the most recent Fiscal Year for which financial statements reported upon by an Accountant are available, and (iii) all other obligations for borrowed money; provided that Indebtedness shall not include (1) Subordinated Indebtedness, (2) Hedge Agreements, (3) any other Indebtedness of any member of the Obligated Group to any other member of the Obligated Group, (4) rentals payable under leases which are not properly capitalized under generally accepted accounting principles or (5) any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group.

"Indenture Guaranty" means any Guaranty issued under the Master Indenture by an Obligated Issuer.

"Instrument" shall have the meaning assigned that term under the Uniform Commercial Code as in effect in any relevant jurisdiction.

"Interest Payment Date" means (a) during Weekly Rate Periods, the first Business Day of each calendar month and any Conversion Date, Proposed Conversion Date or the maturity of the Bonds, and (b) during any Medium-Term Rate Periods and any Fixed Rate Period, each Long-Term Interest Payment Date.

"Interest Rate Swap Obligations" means obligations of any person pursuant to any arrangement with any other person whereby, directly or indirectly, such person is entitled to receive from time-to-time periodic payments calculated by applying either a floating or a fixed rate of interest on a stated principal amount in exchange for periodic payments made by such other person calculated by applying a fixed or a floating rate of interest on the same amount.

"Inventory" means all of the inventory of any Obligated Issuer of every type or description, including all inventory as such term is defined in the Uniform Commercial Code as in effect in any relevant jurisdiction, now owned or hereafter acquired and wherever located, whether raw, in process or finished, all materials usable in processing the same and all documents of title covering any inventory, including but not limited to work in process, materials used or consumed in such Obligated Issuer's business, now owned or hereafter acquired or manufactured by such Obligated Issuer and held for sale in the ordinary course of its business; all present and future substitutions therefor, parts and accessories thereof and all additions thereto; and all proceeds thereof and products of such inventory in any form whatsoever.

"Investment Property" shall have the meaning assigned that term under the Uniform Commercial Code as in effect in any relevant jurisdiction.

"Investment Securities" means, to the extent permitted by applicable law:

(i) Certificates or interest-bearing notes or obligations of the United States, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

(ii) Investments in any of the following obligations, provided such obligations are backed by the full faith and credit of the United States: (a) the Export-Import Bank of the United States, (b) the Federal Housing Administration, (c) the Government National Mortgage Association ("GNMA"), (d) the Rural Economic Community Development Administration (formerly known as the Farmers Home Administration), (e) the Federal Financing Bank, (f) the Department of Housing and Urban Development, (g) the General Services Administration, (h) the U.S. Maritime Administration or (i) the Small Business Administration.

(iii) Investments in direct obligations in any of the following agencies, which obligations are not fully guaranteed by the full faith and credit of the United States: (a) senior obligations by the Federal Home Loan Bank System, (b) senior debt obligations and participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) issued by the Federal Home Loan Mortgage Corporation ("FHLMC") or senior debt obligations and mortgage-backed securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) of the Federal National Mortgage Association ("FNMA"), (c) obligations of the Resolution Funding Corporation ("REFCORP"), or (d) senior debt obligations of the Student Loan Marketing Association ("SLMA") (excluding securities that do not have a fixed par value or whose terms do not promise a fixed dollar amount at maturity or call date).

(iv) Investments in (a) U.S. dollar denominated deposit accounts, federal funds, bankers acceptances, and certificates of deposit of any bank whose short-term debt obligations are rated A-1+ by S&P and P-1 by Moody's and maturing no more than 360 calendar days after the date of purchase (holding company ratings are not considered as rating of the bank) or (b) certificates of deposit of any bank, which certificates are fully insured by the Federal Deposit Insurance Corporation ("FDIC").

(v) Investments in money market funds rated "AAAm" or "AAAm-G" by S&P.

(vi) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's, Inc. and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase.

(vii) Pre-refunded municipal obligations defined as follows: any bonds or other obligations rated "AAA" by S&P and "Aaa" by Moody's (based on an irrevocable escrow account or fund) of any state of the United States of America or any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice.

(viii) Municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of "A1/A+" or higher by both Moody's and S&P at the time of purchase.

(ix) Repurchase agreements with (a) any domestic bank, or domestic branch of a foreign bank, the long-term debt which is rated at least “A” by S&P and “A2” by Moody’s; or (b) any broker-dealer with “retail customers” or a related affiliate thereof, which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” by S&P and “A2” by Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (c) any other entity rated at least “A” by S&P and “A2” by Moody’s; provided that:

(a) the repurchase agreement is collateralized with the obligations described in paragraphs (i) or (ii) above, or with obligations described in paragraph (iii)(a) and (b) above.

(b) the trustee will value the collateral securities no more than semi-annually and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two (2) business days.

(c) the market value of the collateral must be maintained at: 104% of the total principal of the repurchase agreement for obligations described in paragraphs (i) and (ii); 105% of the total principal of the repurchase agreement for obligations described in paragraph (iii)(a) and (b) above.

(d) the trustee or a third party acting solely as agent therefor or for the issuer (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books).

(e) the repurchase agreement shall state, and an opinion of counsel shall be rendered at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, and substituted collateral and all proceeds thereof.

(f) the repurchase agreement shall provide that if during its term the provider’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “A-“ by S&P or “A3” by Moody’s, as appropriate, the provider must, at the direction of the Issuer or the trustee, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the issuer or trustee.

(x) Investment agreements with (a) a domestic or foreign bank or corporation (other than a life or property casualty insurance company), the long-term debt of which, or, in the case of a guaranteed corporation, the long-term debt is rated at least “AA” by S&P and “Aa2” by Moody’s at the time of purchase; or (b) a monoline municipal bond insurance company or a subsidiary thereof whose claims paying ability is rated at least “AA” by S&P and “Aa2” by Moody’s at the time of purchase; provided, that in all cases, by the terms of the investment agreement:

(a) interest payments are to be made to the Bond Trustee at least one business day prior to debt service payment dates on the Bonds and in such amounts as are necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

(b) the invested funds are available for withdrawal, without penalty or premium, at any time upon not more than seven days’ prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided that the investment agreement specifically requires the Issuer or the Bond Trustee to give notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(c) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;

(d) a fixed guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified under the Bond Indenture;

(e) the term of the investment agreement does not exceed seven years;

(f) the Issuer or the Bond Trustee receives the opinion of domestic counsel that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable);

(g) the Bond Indenture and investment agreement shall provide that if, during its term:

(1) the provider's rating by either S&P or Moody's falls below "AA " or "Aa3," respectively, the provider must, at the direction of the Issuer or the Bond Trustee, within 10 days of receipt of such direction, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Issuer, the Bond Trustee or a third party acting solely as agent therefor Permitted Collateral which are free and clear of any third-party liens or claims at the Collateral Levels set forth below; or (ii) repay the principal of and accrued but unpaid interest on the investment (the choice of (i) or (ii) above shall be that of the Issuer or Trustee, as appropriate); and

(2) the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" or "A3" by S&P or Moody's, as appropriate, the provider must, at the direction of the Issuer or the Bond Trustee, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Issuer or Bond Trustee;

(h) The investment agreement shall state and an opinion of counsel shall be rendered that the Bond Trustee has a perfected first priority security interest in the Permitted Collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the trustee is in possession); and

(i) the investment agreement must provide that if, during its term:

(1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Issuer or the Bond Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Bond Trustee, as appropriate;

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Bond Trustee, as appropriate;

(3) the provider fails to perform any of its obligations under the investment agreement (other than obligations related to payment or rating) and such breach continues for ten (10) business days or more after written notice thereof is given by the Bond Trustee to the provider, it shall be an Event of Default; or

(4) a representation or warranty made by the provider proves to have been incorrect or misleading in any material respect when made, it shall be an Event of Default.

Permitted Collateral for Investment Agreements ("Permitted Collateral"):

(A) U.S. direct Treasury obligations;

(B) Senior debt and/or mortgage-backed obligations of GNMA, FNMA or FHLMC and other government-sponsored agencies backed by the full faith and credit of the U.S. government;

(C) Collateral levels must be 104% of the total principal deposited under the investment agreement for U.S. direct Treasury obligations, GNMA obligations and full faith and credit U.S. government obligations and 105% of the total principal deposited under the investment agreement for FNMA and FHLMC;

(D) The collateral must be held by a third party, segregated and marked to market at least weekly.

"Land" means the land subject to the Master Deed of Trust.

"Letter of Credit" means the Original Letter of Credit or, upon the effective date of any Substitute Letter of Credit, such Substitute Letter of Credit.

"Letter of Credit Period" means any period that a Letter of Credit is in effect with respect to the Bonds.

"Lien" means any mortgage or pledge of, security interest in or lien or encumbrance on any Property of any member of the Obligated Group in favor of, or which secures any Indebtedness or any other obligation of any member of the Obligated Group to any person other than another member of the Obligated Group, but specifically excluding subordination arrangements among creditors.

"Loan Agreement" means individually the Series 2013A Loan Agreement and the Series 2013B Loan Agreement.

"Long-Term Indebtedness" means (i) all Indebtedness which, at the time of incurrence or issuance, has a final maturity or term greater than one year or which is renewable at the option of the obligor thereof for a term greater than one year from the date of original incurrence or issuance; and (ii) Short-Term Indebtedness which is incurred as interim financing and which is intended to be repaid out of the proceeds of other Long-Term Indebtedness, provided that any one of the applicable conditions described in the Master Indenture are met with respect to such Short-Term Indebtedness on the date of incurrence, assuming for purposes of compliance therewith that such Short-Term Indebtedness is Long Term Indebtedness characterized as Balloon Indebtedness for purposes of meeting any of the applicable conditions in the Master Indenture; provided, that, Long-Term Indebtedness shall not include (a) Non-Recourse Indebtedness or Subordinated Indebtedness; (b) current obligations payable out of current revenues, including current payments for the funding of pension plans and contributions to self insurance programs; (c) obligations under contracts for supplies, services or pensions, allocated to the current operating expenses of future years in which the supplies are to be furnished, the services rendered or the pensions paid; and (d) rentals payable under leases which are not properly capitalized under generally accepted accounting principles.

"Long-Term Interest Payment Date" means the first January 1 or July 1 next succeeding the Medium-Term Adjustment Date or Conversion Date, as the case may be, and each January 1 or July 1 thereafter until the earlier of payment of the Bonds or the date that the Weekly Rate Periods begin.

"Long-Term Rate Period" means any Medium-Term Rate Period and the Fixed Rate Period.

"Master Deed of Trust" means the Deed of Trust and Security Agreement dated as of February 1, 2000 from the Alliance to an individual, as trustee, granting a deed of trust lien on and a security interest in the Land and the other collateral described therein for the benefit of the Master Trustee, to secure the payment and performance of outstanding Obligations.

"Master Indenture" means the Amended and Master Trust Indenture dated as of February 1, 2000 between the Alliance and the Master Trustee, as it may from time to time be amended or supplemented in accordance with the terms thereof.

"Master Trustee" means The Bank of New York Mellon Trust Company, N.A., or any successor trustee under the Master Indenture.

"Maximum Annual Debt Service" of the Obligated Group means the highest annual Debt Service Requirement of the Obligated Group for the current or any succeeding Fiscal Year during the remaining term of all outstanding Obligations.

"Maximum Guaranty Liability" of a person as of any date means the greater of either (i) or (ii) below:

(i) the greater of (A) or (B) as of such date:

(A) the outstanding amount of all Obligations issued by such person or

(B) the fair market value of all property acquired, in whole or part, with the proceeds of such Obligations by such person.

(ii) The greatest of the Fair Value Net Worth of such person as of (1) the latest fiscal year-end of such person, (2) each fiscal quarter-end of such person thereafter occurring on or prior to the date of the determination of Maximum Guaranty Liability, (3) the date on which enforcement of the pertinent Cross Guarantee is sought, and (4) the date on which a case under the U.S. Bankruptcy Code is commenced with respect to any Obligated Issuer.

"Medium-Term Rate Period" means any period of time from one year to five years as determined by the Remarketing Agent pursuant to the Bond Indenture.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns; and if such corporation shall be dissolved or liquidated or shall no longer perform the function of a municipal securities rating agency, "Moody's" shall be deemed to refer to any other recognized municipal securities rating agency designated by the Alliance.

"Net Operating Revenues" of a person means, with respect to any period of time, operating revenues less estimated contractual allowances, free care, discounts and bad debt expense, all determined, except as is specifically provided in the Master Indenture, in accordance with generally accepted accounting principles.

"Net Property, Plant and Equipment" means the Value of all Property, Plant and Equipment less accumulated depreciation.

"Non-Recourse Indebtedness" means any Indebtedness secured by a Lien on Property of any Obligated Issuer, liability for which is effectively limited to the Property subject to such Lien, with no recourse, directly or indirectly, to any other Property of any Obligated Issuer.

"Note" means any note issued under the Master Indenture by an Obligated Issuer to evidence Long-Term Indebtedness or Short-Term Indebtedness incurred pursuant to the terms of the Master Indenture.

"Notice by Mail" or "notice" of any action or condition "by Mail" means a written notice meeting the requirements of the Bond Indenture mailed by first-class mail, postage prepaid, to the Holders of specified Bonds at the addresses shown in the Bond Register. If, because of the temporary or permanent suspension of mail service or for any other reason, it is impossible or impracticable to mail any such notice in the manner described, then such notification in lieu thereof as shall be made with the approval of the Bond Trustee shall constitute a sufficient notice.

"Obligated Group" means all Obligated Issuers.

"Obligated Group Agent" means the Alliance and any successor Obligated Group Agent appointed pursuant to the Master Indenture.

"Obligated Issuer" means (i) the Alliance, Blue Ridge Medical Management Corporation, Norton Community Hospital, Smyth County Community Hospital and each other person which becomes an Obligated Issuer in accordance with the provisions of the Master Indenture, whether or not such person has issued any obligations thereunder, and which has not withdrawn from the Obligated Group pursuant to the Master Indenture, and (ii) when used in respect of any particular Obligation or other Indebtedness, means the obligor thereunder.

"Obligations" means all Notes and Indenture Guaranties issued under the Master Indenture, any lease, contractual agreement to pay money or other obligations of any Obligated Group Member issued thereunder and any additional forms of Obligations created pursuant to the Master Indenture.

"Officer's Certificate" means a certificate signed, in the case of a corporation, by the Chairman, Vice Chairman, President or Chief Financial Officer or, in the case of a certificate delivered by any other person, the chief executive or chief financial officer of such person, in either case whose authority to execute such certificate shall be evidenced to the satisfaction of the Master Trustee. When an Officer's Certificate is required under the Master Indenture to set forth matters relating to one or more Obligated Issuers, such Officer's Certificate may be given in reliance upon another certificate, or other certificates, and supporting materials, if any, provided by any duly authorized officer of the applicable Obligated Issuer.

"Opinion of Bond Counsel" means an opinion in writing signed by an attorney or firm of attorneys experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

"Opinion of Counsel" means a written opinion of Counsel, who may (except as otherwise expressly provided in the Loan Agreement or the Bond Indenture) be counsel for the Issuer or the Alliance or both, or other Counsel acceptable to the Bond Trustee.

"Original Letter of Credit" means individually the Series 2013A Original Letter of Credit and the Series 2013B Letter of Credit.

"Paying Agent" means the bank or banks, if any, designated pursuant to a Related Bond Indenture to receive and disburse the principal of and interest on any Related Bonds or designated pursuant to the Master Indenture to receive and disburse the principal of and interest on any Obligations.

"Permitted Liens" means the Master Indenture, all Related Financing Documents and, as of any particular time:

(i) Any lien from any member of the Obligated Group to any other member of the Obligated Group;

(ii) Any judgment lien or notice of pending action against any member of the Obligated Group so long as (1) such judgment or pending action is being contested and execution thereon has been stayed or the period for responsive pleading or appeal has not lapsed, or (2) in the absence of such contest, neither the pledge and security interest of this Indenture nor any Property of any member of the Obligated Group will be materially impaired or subject to material loss or forfeiture;

(iii) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law affecting any Property, to (1) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not, in the opinion of the Obligated Group Agent, materially impair the use of such Property or materially and adversely affect the value thereof, or (2) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property; (B) any liens (or deposits to obtain the release of such liens) on any Property for taxes, assessments, levies, fees, water and sewer charges, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed; (C) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not, in the opinion of the Obligated Group Agent, materially impair the use of such Property or materially and adversely affect the value thereof; (D) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not, in the opinion of the Obligated Group Agent, materially impair the use of such Property or materially and adversely affect the value thereof; and (E) to the extent that it affects title to any Property, the Master Indenture;

(iv) Any lease which relates to Property of the Obligated Group which is of a type that is customarily the subject of such leases, including but not limited to any leasehold interest required under any Related Financing Documents, leases with respect to office space for physicians and educational institutions, food service facilities, gift shops and radiology or other hospital-based specialty services, pharmacy and similar departments and statutory landlord's liens with respect to such leases;

(v) Any Lien securing Indebtedness provided such Lien also secures all Obligations (other than Obligations representing Subordinated Indebtedness or Non-Recourse indebtedness) on a parity basis;

(vi) Any Lien arising by reason of good faith deposits in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any member of the Obligated Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(vii) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or government regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any member of the Obligated Group to maintain self insurance or to participate in any funds established to cover any insurance risks or in connection with workers compensation, unemployment insurance, pension or profit sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements;

(viii) Any Lien arising by reason of an Escrow Deposit;

(ix) (A) Any Lien in favor of a trustee or the holder of a Note on the proceeds of Indebtedness or cash or investments deposited with such trustee and acquired with such proceeds prior to the application of such proceeds or cash or investments and (B) Liens in favor of a trustee, including the Master Trustee, to secure obligations to compensate, reimburse or indemnify such trustees;

(x) Any Lien on moneys deposited by patients or others with any member of the Obligated Group as security for or as prepayment for the cost of patient care;

(xi) Any Lien on Property received by any member of the Obligated Group through gifts, grants or bequests, such Lien being due to restrictions on such gifts, grants or bequests of property or the income thereon;

(xii) Statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. §§ 291 *et seq.* and similar rights under other federal and state statutes;

(xiii) Liens existing at the time of a Consolidation or Merger permitted under the Master Indenture, on the date of acquisition of any Property or at the time a person becomes an Obligated Issuer; provided that no such Lien (or the amount of indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of any member of the Obligated Group not subject to such Lien on such date, unless such Lien as so extended, renewed or modified shall be offered as security for all Obligations hereunder;

(xiv) Any Lien described in Exhibit A to the Master Indenture, provided that no such Lien (or the amount of indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of any member of the Obligated Group not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien under the Master Indenture;

(xv) A security interest in any funds or accounts established pursuant to the provisions of any Related Financing Documents;

(xvi) Liens in the form of purchase money security interests in Property financed with the proceeds of Indebtedness secured thereby;

(xvii) Liens securing any Indebtedness permitted under the Master Indenture, provided that the Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent to the effect that not more than 20% of the Value of all Net Property Plant and Equipment of the Obligated Group would be subject to a Lien (excluding any purchase money security interest permitted under subsection (xvi) above and the Lien created under the Master Deed of Trust for the purpose of making such calculation);

(xviii) Liens on accounts receivable arising as a result of sale of such accounts receivable with recourse, provided that such liens shall be limited to 25% of net accounts receivable outstanding; and

(xix) Options granted by any member of the Obligated Group to others to purchase real property or other assets of such member; provided, however, that the sale pursuant to such option would be permitted under the conditions described in the Master Indenture.

(xx) Liens on any Property that is not encumbered by the Master Deed of Trust so long as the aggregate amount secured by such Liens does not exceed $5,000,000.

"Pledged Bonds" means any Bonds purchased with the proceeds of a drawing under and in accordance with the provisions of the Letter of Credit until such time as such Bonds are released from the security interest created by the Reimbursement Agreement in accordance with the provisions thereof.

"Proceeds" means "proceeds" as such term is defined in the Uniform Commercial Code as in effect in any relevant jurisdiction or under other relevant law and, in any event, shall include, but shall not be limited to, (i) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to any Obligated Issuer from time to time, and claims for insurance, indemnity, warranty or guaranty effected or held for the benefit of the Corporation, with respect to any of the Collateral, (ii) any and all payments (in any form whatsoever) made or due and payable to the any Obligated Issuer from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any Government Authority (or any person acting under color of Government Authority) and (iii) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Projected Debt Service Coverage Ratio" means for any future period of time, the ratio determined by dividing projected Total Income Available for Debt Service for such period by Maximum Annual Debt Service of the Obligated Group.

"Property" means any and all rights, titles and interests in and to any and all assets of a person, including all real or personal property, all tangible or intangible property, and all cash, wherever such assets are situated.

"Property, Plant and Equipment" means all Property which is classified as property, plant and equipment under generally accepted accounting principles.

"Rate Period" or "Rate Periods" means any of (a) the Weekly Rate Periods, (b) the Medium-Term Rate Periods or (c) the Fixed Rate Period.

"Rating Agency" means, severally or collectively, if applicable (i) Standard & Poor's Ratings Group and any successor thereto, if it has assigned a rating to any Obligation issued and outstanding under the Master Indenture or any Related Bonds issued and outstanding pursuant to any Related Financing Documents, (ii) Moody's Investors Service, Inc. and any successor thereto, if it has assigned a rating to any Obligation issued and outstanding under the Master Indenture or any Related bonds issued and outstanding pursuant to any Related Financing Documents, and (iii) Fitch's IBCA Inc. and any successor thereto, if it has assigned a rating to any Obligation issued and outstanding pursuant to any Related Financing Documents. If any such Rating Agency shall no longer perform the functions of a securities rating service for whatever reason, the term "Rating Agency" shall thereafter be deemed to refer to the others, but if both of the others shall no longer perform the functions of a securities rating service for whatever reason, term "Rating Agency" shall thereafter be deemed to refer to any other nationally recognized rating service or services as shall be designated in writing by the Obligated Group Agent to the Master Trustee; provided that such designee shall not be unsatisfactory to the Master Trustee.

"Receivables" means any "Account" as such term is defined in the Uniform Commercial Code as in effect in any relevant jurisdiction and in any event shall include, but not be limited to, all of any Obligated Issuer's rights to payment for goods (including, without limitation, steam and electricity) sold or leased, or for services performed, by such Obligated Issuer, whether now in existence or arising from time to time hereafter, including, without limitation, rights evidenced by an account, note, contract, security agreement, chattel paper, or other evidence of indebtedness or security, together with (i) all security pledged, assigned, hypothecated or granted to or held by any Obligated Issuer to secure the foregoing, (ii) all of such Obligated Issuer's right, title and interest in and to any goods (including, without limitation, steam and electricity), the sale of which gave rise thereto, (iii) all guarantees, endorsements and indemnifications on, or of, any of the foregoing, (iv) all powers of attorney for the execution of any evidence of indebtedness or security or other writing in connection therewith, (v) all books, correspondence, credit files, records, ledger cards, invoices, and other papers relating thereto, including without limitation all similar information stored on a magnetic medium or other similar storage device and other papers and documents in the possession or under the control of any Obligated Issuer or any computer bureau from time to time acting for such Obligated Issuer, (vi) all evidences of the filing of financing statements and other statements and the registration of other instruments in connection therewith and amendments thereto, notices to other creditors or secured parties, and certificates from filing or other registration officers, (vii) all credit information, reports and memoranda relating thereto, and (viii) all other writings related in any way to the foregoing.

"Record Date" means (a) during Weekly Rate Periods, the Business Day preceding any Interest Payment Date, and (b) during any Medium-Term Rate Periods or Fixed Rate Periods, the first day of the month preceding any Interest Payment Date.

"Redemption Date" when used with respect to any Bond to be redeemed means the date on which it is to be redeemed pursuant hereto.

"Redemption Price" when used with respect to any Bond to be redeemed means the price at which it is to be redeemed pursuant thereto.

"Regularly Scheduled Qualified Swap Payments" means the regularly scheduled payments under the terms of an Hedge Agreement which are due or receivable absent any termination, default or dispute in connection with such Hedge Agreement.

"Reimbursement Agreement" means individually (i) the Reimbursement Agreement relating to the Series 2013A Bonds dated as of July 30 among the Obligated Group, the Bank and other Lenders Parties thereto, including any amendments or supplements thereto and (ii) the Reimbursement Agreement relating to the Series 2013B Bonds dated as of July 30 among the Obligated Group, the Bank and other Lenders Parties thereto, including any amendments or supplements thereto; and upon the effective date of any Substitute Letter of Credit, "Reimbursement Agreement" shall mean a similar agreement, if any, between the issuer of such Substitute Letter of Credit and the Alliance.

"Related Bond Indenture" means any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

"Related Bond Issuer" means the Government Issuer of any issue of Related Bonds.

"Related Bond Trustee" means the trustee and its successors in the trust created under any Related Bond Indenture, and if there is no such trustee, shall mean the Related Bond Issuer.

"Related Bonds" means the revenue bonds, notes, other evidences of indebtedness or any other obligations issued by a Government Issuer, pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to an Obligated Issuer in consideration of the execution, authentication and delivery of a Note to or for the order of such Government Issuer.

"Related Financing Documents" means:

(a) in the case of any Note, (i) all documents, including any Related Bond Indenture, pursuant to which the proceeds of the Note are made available to an Obligated Issuer, the payment obligations evidenced by the Note are created and any security for the Note (if permitted under this Indenture) is granted, and (ii) all documents creating any additional payment or other obligations on the part of an Obligated Issuer which are executed in favor of the Holder in consideration of the Note proceeds being loaned or otherwise made available to the Obligated Issuer;

(b) in the case of any Indenture Guaranty, all documents creating the indebtedness being guaranteed pursuant to the Indenture Guaranty and providing for the loan or other disposition of the proceeds of the indebtedness and all documents pursuant to which any security for the Indenture Guaranty (if permitted under the Master Indenture) is granted; and

(c) in the case of Indebtedness other than Notes and Indenture Guaranties, all documents relating thereto which are of the same nature and for the same purpose as the documents described in clauses (a) and (b) above.

"Revenues" means all revenues, income, receipts and other money received or accrued by or on behalf of any Obligated Issuer from any source whatsoever, including, without limitation, proceeds derived from (i) insurance except where otherwise provided herein, (ii) all accounts and assignable general intangibles now owned or hereafter acquired by any Obligated Issuer, and all proceeds therefrom whether cash or noncash, all as defined in Article 9 of the Uniform Commercial Code, as enacted by the State of Tennessee, (iii) the sale of goods, inventory and other tangible and intangible property, (iv) agreements respecting Medicare, Medicaid and Blue Cross or similar or successor programs, and (v) all gifts, grants, bequests, contributions and donations made to any Obligated Issuer, including the income and profits therefrom.

"S&P" means Standard & Poor's Rating Group, a division of McGraw-Hill Financial Services Company, its successors and assigns; and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a municipal securities rating agency, Standard & Poor's Corporation shall be deemed to refer to any other nationally recognized municipal securities rating agency designated by the Alliance.

"Series 2013A Bond Indenture" means the Bond Trust Indenture dated as of July 1, 2013, between the Issuer and the Bond Trustee, as amended and supplemented, relating to the Series 2013A Bonds.

"Series 2013B Bond Indenture" means the Bond Trust Indenture dated as of July 1, 2013, between the Issuer and the Bond Trustee, as amended and supplemented, relating to the Series 2013B Bonds.

"Series 2013A Bonds" means the Issuer's Hospital Revenue Bonds (Mountain States Health Alliance) Series 2013A Bonds.

"Series 2013B Bonds" means the Issuer's Taxable Hospital Refunding Revenue Bonds (Mountain States Health Alliance) Series 2013B Bonds.

“Series 2013A Loan Agreement” means Loan Agreement dated as of July 1, 2013, between the Issuer and the Alliance, as amended and supplemented, relating to the Series 2013A Bonds.

“Series 2013B Loan Agreement” means Loan Agreement dated as of July 1, 2013, between the Issuer and the Alliance, as amended and supplemented, relating to the Series 2013B Bonds.

“Series 2013 Obligations” means the Mountain States Health Alliance Notes being issued by the Alliance under the Master Indenture in connection with the issuance of the Bonds.

“Series 2013A Original Letter of Credit” the Letter of Credit delivered by the Bank to the Bond Trustee on the date of original issuance of the Series 2013A Bonds in accordance with the Series 2013A Loan Agreement, and all amendments, extensions, modifications and supplements thereto.

“Series 2013B Original Letter of Credit” the Letter of Credit delivered by the Bank to the Bond Trustee on the date of original issuance of the Series 2013B Bonds in accordance with the Series 2013B Loan Agreement, and all amendments, extensions, modifications and supplements thereto.

“Short-Term Indebtedness” means all Indebtedness other than Long-Term indebtedness.

“Subordinated Indebtedness” means any promissory note, guaranty, lease, contractual agreement to pay money or other obligation of any Obligated Issuer which is expressly made subordinate and junior in right of payment of principal of, redemption premium, if any, and interest on, (i) all Obligations issued pursuant to the Master Indenture, and (ii) all other obligations of the Obligated Group under the Master Indenture, on terms and conditions which substantially require that (1) no payment on account of principal of, redemption premium, if any, or interest on such Subordinated Indebtedness shall be made, nor shall any property or assets be applied to the purchase or other acquisition or retirement of such Subordinated Indebtedness, unless full payment of all amounts when due and payable upon maturity of Obligations issued under the Master Indenture have been made or duly provided for in accordance with the terms of such Obligations; (2) no payment on account of principal of, redemption premium, if any, or interest on such Subordinated Indebtedness shall be made, nor shall any property or assets be applied to the purchase or other acquisition or retirement of such Subordinated Indebtedness if, at the time of such payment or application, or immediately after giving effect thereto, (i) there shall exist a default in the payment of the principal of, redemption premium, if any, or interest on any Obligations (whether at maturity or upon mandatory redemption), or (ii) there shall have occurred an Event of Default with respect to any Obligations, as defined therein and in this Indenture, and such Event of Default shall not have been cured or waived or shall not have ceased to exist; and (3) in the event that any Subordinated Indebtedness is declared or otherwise becomes due and payable because of the occurrence of an event of default with respect thereto, (x) the Holders at such time shall be entitled to receive payment in full thereon before the holders of the Subordinated Indebtedness shall be entitled to receive any payment on account of such Subordinated Indebtedness as a result of such event of default, and (y) no holder of Subordinated Indebtedness, or a trustee acting on such holder’s behalf, shall be entitled to exercise any control over proceedings to enforce the terms and conditions of the Master Indenture.

“Tax-Exempt Organization” means a person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxes under Section 501(a) of the Code, and which is not a “private foundation” within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

“Termination Date” means the stated expiration date of the Letter of Credit or the immediately preceding Business Day if such date is not a Business Day but shall not include the expiration date of the Letter of Credit due to a conversion to the Fixed Rate.

“Total Income Available for Debt Service” means, as to any period, (a) the aggregate of Income Available for Debt Service of each member of the Obligated Group for such period, determined in such a manner that no portion of Income Available for Debt Service of any member of the Obligated Group is included more than once.

"Total Net Operating Revenues" means, as to any period, the aggregate of Net Operating Revenues of each member of the Obligated Group for such period, determined in such a manner that no portion of Net Operating Revenues of any member of the Obligated Group is included more than once.

"Unrestricted Liquid Funds" as of any date means the aggregate of the unrestricted and unencumbered/unpledged cash and unrestricted and unencumbered/unpledged liquid securities (valued at fair market value) of the Obligated Group as of such date (including board-designated funds) from which there shall be subtracted each of the following: (i) the value of all self-insured professional and general liability insurance obligations of the Obligated Group determined by an independent actuary as of such date, (ii) any funds held by the lender or trustee with respect to any Long Term Indebtedness (including any debt service reserve fund, any debt service or bond fund or any construction or project fund), (iii) any proceeds drawn from a line of credit, liquidity facility or other similar facility and (iv) any grantor or donor restricted funds.

"Value," when used in connection with any Property, means either (a) Book Value, or (b) at the election of the Obligated Group Agent evidenced by an Officer's Certificate delivered to the Master Trustee, the aggregate fair market value of such Property, as reflected in the most recent written report of an appraiser selected by the Obligated Group Agent and, in the case of real property, who or which is a member of the American Institute of Real Estate Appraisers (MAI), delivered to the Master Trustee (which report shall be dated not more than three years prior to the date as of which value is to be calculated) (i) increased or decreased by the cost of any Property acquired, or the fair market value of any Property disposed of, since the date of such report and (ii) increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which value is to be calculated.

"Variable Rate Indebtedness" means any portion of Indebtedness the interest rate on which fluctuates subsequent to the time of incurrence.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

Each Obligation will be issued pursuant to the Master Indenture and will entitle each holder thereof to the protection of the covenants, restrictions and other obligations imposed upon the Corporation and each Obligated Issuer by the Master Indenture and the security provided for therein.

Accounting Principles

Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation, combination or other accounting computation is required to be made for the purposes of the Master Indenture or any agreement, document or certificate executed and delivered in connection with or pursuant to the Master Indenture, such determination or computation shall be done in accordance with generally accepted accounting principles in effect on (i) the date of the delivery of the Master Indenture, or (ii) at the election of the Obligated Group Agent, as specified in an Officer's Certificate delivered to the Master Trustee, the date such determination or computation is made for any purpose of the Master Indenture, such accounting principles, to the extent applicable, consistently applied; provided that intercompany balances and liabilities among the Obligated Issuers shall be disregarded and that the requirements set forth in this paragraph shall prevail, if inconsistent with generally accepted accounting principles. In the event that the fiscal year of any Obligated Issuer ends on a date other than the last day of a Fiscal Year, the character or amount of any asset or liability or item of income or expense of such Obligated Issuer for its fiscal year ending within any Fiscal Year under consideration shall be deemed to be the character or amount of the appropriate asset or liability or item of income or expense for such Fiscal Year. For purposes of calculating Total Income Available for Debt Service and Total Net Operating Revenues for any period, if any Obligated Issuer shall have become a member of the Obligated Group during such period, such calculations shall be made assuming that such Obligated Issuer became a member of the Obligated Group at the beginning of such period.

Master Indenture Obligations

Each Obligated Issuer is permitted to issue one or more series of Obligations under the Master Indenture on which all Obligated Issuers will be jointly and severally liable. The terms of each Obligation shall be set forth in a Supplemental Indenture.

The principal of, premium, if any, and interest on the Obligations shall be payable in any currency of the United States of America which is legal tender for the payment of public and private debts. Such payment shall be made at the principal corporate trust office of the Master Trustee or, if an Obligated Issuer so elects, by check, draft or wire transfer to such Holder. In the case of all payments made directly to a Holder, the Obligated Issuer shall give notice of such payment to the Master Trustee concurrently with the making thereof.

Each Obligated Issuer, jointly and severally, unconditionally guarantees to the Holders of the Obligations and to the Master Trustee the due and punctual payment of the principal of, and interest on, the Obligations and all other amounts due and payable under the Master Indenture; provided, however, that the maximum aggregate liability of each Obligated Issuer, as of any date, shall be its Maximum Guaranty Liability as of such date.

Each Obligated Issuer shall be subrogated to all rights of the Holders of the Obligations and the Master Trustee against the other Obligated Issuers in respect of any amounts paid pursuant to the Master Indenture.

If any person ceases to be an Obligated Issuer, such person shall cease to be a "Cross Guarantor" under the Master Indenture, and its Obligations as such shall be terminated and released; provided, however, that the foregoing provision is inapplicable (i) if such person ceases to be an Obligated Issuer as a result of a transaction which is prohibited by the terms of the Master Indenture or (ii) if, at the time such person would otherwise have been released under the provisions of this paragraph, there has occurred and is continuing a default in the payment of principal, or interest, on any Obligation.

If an Obligated Issuer is called upon to make a payment under its Cross Guarantee, each of the Obligated Issuers shall contribute to such paying Obligated Issuer their pro rata share, determined pursuant to the Master Indenture, of the amount of such payment.

All Obligations shall be executed for and on behalf of an Obligated Group Member by the officer as specified in the Master Indenture or such other officer designated in writing. A resolution of the Governing Body of the Obligated Group Agent shall also be joined thereto. Further, each Obligation shall be manually authenticated, in the form provided in the Master Indenture, by an authorized signer of the Master Trustee, without which authentication no Obligation shall be valid or entitled to the benefits of the Master Indenture.

The Master Trustee shall maintain at its principal corporate trust office a registration book relating to Obligations of the Obligated Group. These registration books shall contain (i) the names and addresses of Holders of Obligations, and (ii) any other information which may be necessary for the proper discharge of the Master Trustee's duties under the Master Indenture. The Supplemental Indenture, providing for the issuance thereof, shall govern the transfer or exchange of any Obligation.

If any Obligation is mutilated, lost, stolen or destroyed, the Holder thereof shall be entitled to the issuance of a substitute Obligation only as follows:

(i) In the case of a lost, stolen or destroyed Obligation, the Holder shall: provide notice of the loss to the Obligated Group Agent, or to the Master Trustee; request the issuance of a substitute Obligation before the Obligated Group Agent receives notice of the transfer of the original Obligation to a bona fide purchaser for value without notice; provide indemnity to the Master Trustee against any and all claims arising out of, or otherwise related to, the issuance of substitute Obligations; and shall surrender any Obligation which have not been lost, stolen or destroyed and provide evidence of the ownership of the affected Obligation and the loss, theft or destruction thereof;

(ii) In the case of a mutilated Obligation the Holder shall: surrender the Obligation to the Master Trustee for cancellation; and provide indemnity to the Master Trustee against any and all claims arising out of, or otherwise related to, the issuance of substitute Obligations.

Every substituted Obligation shall constitute an additional contractual obligation of the Obligated Group, whether or not the Obligation alleged to have been destroyed, lost or stolen shall be at any time enforceable by anyone, and shall be entitled to all the benefits of the Master Indenture equally and proportionately with any and all other Obligations, unless the Obligation alleged to have been destroyed, lost or stolen shall be at any time enforceable by a bona fide purchaser for value without notice.

The preceding provisions regarding substitute Obligations are exclusive with respect to the replacement or payment of mutilated, destroyed, lost or stolen Obligations and shall preclude any and all other rights or remedies, notwithstanding any law or statute existing or later enacted to the contrary.

The Master Trustee shall establish and maintain a revenue or similar debt service fund for the purpose of accumulating and paying amounts due on outstanding Obligations (i) if the applicable Supplemental Indenture provides for the making of deposits directly with the Master Trustee in respect of an Obligation, or (ii) upon the occurrence of an Event of Default under the Master Indenture and the exercise of any remedies by the Master Trustee for the benefit of all Holders of outstanding Obligations. All money held in any fund established under the Master Indenture, in the case of (i) above, shall, upon written request and direction of the Obligated Group Agent, be invested in Investment Securities, and any money realized by the Master Trustee in the case of (ii) above, shall be invested by the Master Trustee, without need of any further authorization or direction, only in Government Obligations with maturities not in excess of ninety days, unless the Master Trustee is otherwise directed by Holder. The Master Trustee shall not be liable or responsible for any loss resulting from any such investment.

Any Obligated Issuer and the Master Trustee may enter into a Supplemental Indenture to create an Obligation issued under the Master Indenture. The Supplemental Indenture shall (i) with respect to Obligations created thereby, set forth the date thereof, and the date or dates on which principal of, premium, if any, and interest on such Obligations shall be payable, and (ii) provide for the form of such Obligations and shall contain such other terms and provisions as shall not be inconsistent with the provisions of the Master Indenture.

Simultaneously with or prior to the execution, authentication and delivery of the Obligations pursuant to the Master Indenture:

(a) All requirements and conditions to the issuance of such Obligations, if any, set forth in the Master Indenture and the Supplemental Indenture shall have been complied with and satisfied;

(b) The applicable Obligated Issuer or the Obligated Group Agent shall have delivered to the Master Trustee such opinions, certificates, proceedings, instruments and other documents as the Master Trustee or the Related Bond Issuer, if any, may reasonably request;

(c) The requirements of the Master Indenture with respect to the incurrence of Additional Indebtedness shall have been satisfied if such Obligations constitute Indebtedness;

(d) Each Supplemental Indenture shall specify the purpose or purposes for which such Obligations are being issued, which may be any purpose within the corporate power of the applicable Obligated Issuer; and

(e) The Obligated Group Agent shall have delivered to the Master Trustee an opinion of counsel, regarding the Securities Act of 1933 and the Trust Indenture Act of 1939, as required pursuant to the Master Indenture.

Security For Obligations

As security for the payment and performance of all outstanding Obligations, the Obligated Issuers shall grant the Master Trustee a security interest in (i) all money and Investment Securities which may at any time be held by the Master Trustee in any fund or account which may be established by the Master Trustee under the Master Indenture in connection with the administration of the trusts created thereby, (ii) all Gross Receipts, (iii) all Receivables, (iv) all Inventory, (v) all Equipment, (vi) all General Intangibles, (vii) all Contracts and all Contract Rights, (viii) all amounts from time to time held in any checking, savings, deposit or other account of any Obligated Issuer, (ix) all Government Approvals, provided, that any Government Approval which by its terms or by the operation of law would become void, voidable, terminable or revocable if mortgaged, pledged or signed under the Master Indenture or if a security interest therein were granted thereunder or expressly accepted and excluded from the security interest hereby granted to the extent necessary so as to avoid such voidness, voidability, terminability or revocability, (x) all Fixtures, including but not limited to those now or hereafter attached to, placed on or incorporated in the Land, (xi) all Revenues, (xii) without limiting the generality of the foregoing, all other personal property, goods, Instruments, Investment Property, Chattel Paper, Documents, credits, claims, demands and assets of any Obligated Issuer, whether now existing or hereafter acquired from time to time, and (xiii) any and all additions and accessions to any of the foregoing, all improvements thereto, all substitutions and replacements therefor and all products and Proceeds thereof (all of the above collectively, the "Collateral"), to have and to hold in trust for the benefit of the Holders from time to time of all Obligations issued and outstanding under the Master Indenture, without preference or priority of any one Obligation over any other Obligation except as otherwise expressly provided therein. The security interest granted to the Master Trustee pursuant to the Master Indenture extends to all Collateral of the kind which is subject to such security interest which any Obligated Issuer may acquire at any time during the continuation of the Master Indenture, whether such Collateral is in transit or in such Obligated Issuer, the Issuer's or any other person's constructive, actual or exclusive occupancy or possession.

To further secure the payment of and performance under all outstanding Obligations, the Corporation has, on even date herewith, executed and delivered to the Master Trustee the Master Deed of Trust.

If (i) in any Fiscal Year beginning with the Fiscal Year ending June 30, 2006, the Historical Maximum Annual Debt Service Coverage Ratio of the Obligated Group is less than 1.50 to 1, (ii) the Obligated Group is not in compliance with the liquidity covenant described under the caption "Liquidity Covenant" herein, or (iii) an Event of Default has occurred and is continuing, the Obligated Group Agent shall cause a special trust fund (the "Revenue Fund") to be created with one or more banking institutions and each Obligated Issuer shall on a daily basis deposit all of its Gross Receipts therein.

The Obligated Group Agent shall cause each banking institution with which the Revenue Fund has been established to enter into a written depository agreement, which shall be satisfactory in form and substance to the Master Trustee and shall be in substantially the form of such agreement heretofore delivered to the Master Trustee (or with such changes therein as shall have been approved by the Holders of not less than 75% in aggregate principal amount of Obligations then outstanding) pursuant to which such banking institution shall agree to hold any and all Gross Receipts from time to time on deposit with such banking institution as assets of a trust for the Holders of the Obligations and to transfer such Gross Receipts to the Master Trustee upon receipt from the Master Trustee of a notice stating that delivery of such Gross Receipts is required pursuant to the Master Indenture. Prior to its receipt of a request from the Master Trustee, any Obligated Group member may transfer or expend all or any part of its Gross Receipts free of any security interest, subject, however, to the provisions of the Master Indenture. Deposits of Gross Receipts shall be made into the Revenue Fund on a daily basis, insofar as practicable, for the benefit of the Master Trustee and the Holders of the Obligations. Upon the request of the Obligated Group Agent, the Master Trustee will provide to such agent a written certifications as to whether there is currently outstanding a request from the Master Trustee.

Each Obligated Issuer agrees that except as may be otherwise provided in the Master Indenture, it will not pledge or grant a security interest in any of the Gross Receipts.

Each Obligated Issuer agrees that, if an Event of Default shall have occurred and be continuing, it will, upon request of the Master Trustee, deliver or direct to be delivered to the Master Trustee all Gross Receipts until such Event of Default has been cured, such Gross Receipts to be applied in accordance with the Master Indenture.

The Master Trustee shall establish and maintain a revenue or similar debt service fund hereunder for the purpose of accumulating and paying amounts due on outstanding Obligations (i) if the applicable Supplemental Indenture specifically provides for the making of deposits directly with the Master Trustee in respect of an

Obligation, or (ii) upon the occurrence of an Event of Default and the exercise of any remedies by the Master Trustee for the benefit of all Holders of outstanding Obligations; provided, however, if neither (i) nor (ii) are at the time applicable but deposits to the Revenue Fund are then required under subsection (a) above, the Obligated Group Agent may deposit the Gross Receipts with one or more banking institutions (other than the Master Trustee) and such revenues shall, upon the request and direction of the Obligated Group Agent, be invested in Investment Securities. In the case of (i) above, deposits to any such fund and payments therefrom shall be made in accordance with the terms and provisions of the applicable Supplemental Indenture for the making of deposits into and payments from such fund. In the case of (ii) above, any moneys realized by the Master Trustee upon the exercise of any such remedies shall be applied in accordance with the provisions of the Master Indenture. All money held at any time in any fund in the case of (i) above, shall, upon written request and direction of the Obligated Group Agent, be invested in Investment Securities and any money realized by the Master Trustee in the case of (ii) above, shall be invested by the Master Trustee, without need of any further authorization or direction, only in Government Obligations having maturities not in excess of 90 days, unless the Master Trustee is otherwise directed by Holders in the manner provided in the Master Indenture.

Persons Becoming Obligated Issuers; Withdrawal from Obligated Group

The Master Indenture permits persons other than the Corporation to become members of the Obligated Group subject to the satisfaction of certain conditions. The conditions include the following:

First, such person shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Obligated Group Agent, containing (i) the agreement of such person to become an Obligated Issuer under the Master Indenture and thereby to become subject to compliance with all provisions of the Master Indenture pertaining to an Obligated Issuer, including the performance and observance of all covenants and obligations of an Obligated Issuer under the Master Indenture; (ii) the agreement of such person to consult with each other member of the Obligated Group prior to incurring any Obligations; and (iii) such other restrictions on the ability of such person to incur Obligations as shall be imposed by the Obligated Group. Such person shall execute and deliver to the Master Trustee such security agreements, financing statements and other documents as are necessary to grant to the Master Trustee a perfected lien in all Collateral in which such person has an interest.

Second, each instrument executed and delivered to the Master Trustee in accordance with the preceding paragraph shall be accompanied by an Officer’s Certificate from the Obligated Group Agent to the effect that the Obligated Group Agent consents to such person becoming an Obligated Issuer and an opinion of Counsel to the effect that (a) the conditions contained in the Master Indenture relating to such person’s membership in the Obligated Group have been satisfied; (b) under then existing law, such person becoming an Obligated Issuer will not subject any Obligation to the registration provisions of the Securities Act of 1933, as amended, or that such Obligation has been so registered if so required, or the qualification of the Master Indenture pursuant to the Trust Indenture Act of 1939, as amended, or that the Master Indenture has been so qualified if qualification is required; and (c) each such instrument has been duly authorized, executed and delivered by such person and constitutes a legal, valid and binding agreement, enforceable in accordance with its terms, except as limited by then-existing laws relating to bankruptcy and insolvency and other standards and customary legal exceptions.

If all amounts due or to become due on any outstanding Related Bond which bears interest that is not includable in gross income under the Code has not been paid to the holder thereof (or provision for such payment has not been made in such manner as to have resulted in the defeasance of the Related Financing Documents), the Master Trustee shall receive an Opinion of Bond Counsel to the effect that under then existing law such person becoming an Obligated Issuer would not adversely affect the validity of such Related Bond or cause the interest payable on such Related Bond to become includable in gross income under the Code.

As a further condition to a person becoming a member of the Obligated Group, the Master Trustee shall receive an Officer’s Certificate from the Obligated Group Agent to the effect that (A) no Event of Default then exists under the Master Indenture, nor to such officer’s knowledge, does there then exist any event which, with the passage of time or giving of notice or both, would or might become an Event of Default under the Master Indenture, and (B) either (1) if one dollar of Additional Indebtedness were incurred immediately following such person’s admission, the Obligated Group would meet the test providing for the incurrence of Long-Term Indebtedness pursuant to subsection (a)(i) or (ii) under the heading “Additional Long-Term Indebtedness” (assuming, for purposes of such certificate, that the Income Available for Debt Service and Indebtedness of such person were Income Available for Debt Service and Indebtedness of an Obligated Issuer), or (2) such person becoming a member of the Obligated Group will cure any Event of Default then in existence under the Master Indenture, or (3) by reason of such membership, the Projected Debt Service Coverage Ratio for each of the two Fiscal Years following such entry into the Obligated Group will be greater than the projected Debt Service Coverage Ratio for such Fiscal Years had such entry into the Obligated Group not occurred, and (C) immediately after such person's admission, the combined fund balance and net worth, as the case may be, of the Obligated Group is not less than 90% of such combined fund balance and net worth immediately prior to such admission, and (D) the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group (taking into account the admission of such person) for each of the two most recent Fiscal Years for which consolidated or combined financial statements reported upon by an independent certified public Accountant are available was not less than 1.30:1.

As a further condition to a person becoming a member of the Obligated Group, the Master Trustee shall receive a Consultant's report to the effect that the Projected Debt Service Coverage Ratio of the Obligated Group (taking into account the admission of such person) for each of the two Fiscal Years following the admission of such person is not less than 1.30:1.

The Corporation shall not withdraw from the Obligated Group. No other Obligated Issuer may withdraw from the Obligated Group unless:

(i) If the Obligated Issuer is other than the Obligated Group Agent, the Obligated Group Agent consents to the withdrawal;

(ii) If all amounts due on any outstanding Related Bond which bears interest that is not includable in gross income under the Code have not been paid to the holder thereof (or provision for such payments has not been made in such manner as to have resulted in the defeasance of the Related Financing Documents), the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such person's withdrawal from the Obligated Group would not adversely affect the validity of such Related Bond or cause the interest payable on such Related Bond to become includable in gross income under the Code;

(iii) The Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent to the effect that either (1) after giving effect to such withdrawal, if one dollar of Additional Indebtedness were incurred, the Obligated Group would meet the test providing for the incurrence of Long-Term Indebtedness pursuant to subsection (a)(i) or (ii) under the heading "Additional Long-Term Indebtedness," or (2) such person's withdrawal from the Obligated Group will cure any Event of Default then in existence under the Master Indenture, or (3) by reason of such withdrawal, the Projected Debt Service Coverage Ratio for each of the two Fiscal Years immediately following withdrawal of such Obligated Issuer from the Obligated Group will be greater than the Projected Debt Service Coverage Ratio for such Fiscal Years had such withdrawal not occurred;

(iv) The Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent to the effect that, immediately after the withdrawal of such person from the Obligated Group, no Event of Default then exists under the Master Indenture, nor to such officer's knowledge, does there then exist any event which, with the passage of time or giving of notice or both, would or might become an Event of Default; and

(v) The Master Trustee shall have received a Consultant's report to the effect that the Projected Debt Service Coverage Ratio of the Obligated Group (taking into account the withdrawal of such person) for each of the two Fiscal Years following the withdrawal of such person is not less than 1.3:1;

(vi) The Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent to the effect that the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group (taking into account the withdrawal of such Obligated Issuer) for each of the two most recent Fiscal Years for which consolidated or combined financial statements reported upon an independent certified public Accountant are available was not less than 1.30 to 1; and

(vii) The Obligated Group Agent shall have received an opinion of Counsel to the effect that following such person's withdrawal from the Obligated Group no member of the Obligated Group will have any liability for the payment of any indebtedness of such person.

Upon compliance with the above conditions, the Master Trustee shall execute any documents reasonably requested by the withdrawing Obligated Issuer to evidence the termination of such Issuer's obligations under the Master Indenture, under any Supplemental Indenture and under all Obligations.

Short-Term Indebtedness

Each Obligated Issuer agrees that it will not incur, nor permit any of its Restricted Affiliates to incur, any Additional Indebtedness constituting Short-Term Indebtedness unless immediately after the incurrence of such Short-Term Indebtedness:

(a) (i) the principal amount of all Short-Term Indebtedness of the Obligated Group then outstanding does not exceed 20% of the Total Net Operating Revenues for the most recent Fiscal Year for which consolidated or combined financial statements reported upon by an independent certified public Accountant are available, or

(ii) any such Short-Term Indebtedness could be incurred under the tests set forth in the Master Indenture (relating to Long-Term Indebtedness) treating such Short-Term Indebtedness as Long-Term Indebtedness, and

(b) For a period of not fewer than 15 consecutive days within each Fiscal Year, the Obligated Group shall reduce the aggregate principal amount of all outstanding Short-Term Indebtedness described in (a)(i) above to less than 5% of the Total Net Operating Revenues for the immediately preceding Fiscal Year.

Additional Long-Term Indebtedness

Each Obligated Issuer agrees that it will not incur nor permit any of its Restricted Affiliates to incur, any Additional Indebtedness constituting Long-Term Indebtedness unless such Long-Term Indebtedness consists of one or more of the following:

(a) Long-Term Indebtedness of any member of the Obligated Group, if prior to the incurrence thereof, there is delivered to the Master Trustee:

(i) an Officer's Certificate of the Obligated Group Agent demonstrating that the Historical Pro Forma Debt Service Coverage Ratio for the most recent Fiscal Year for which consolidated or combined financial statements reported upon by an independent certified public Accountant are available, was not less than 1.35; or

(ii) (A) an Officer's Certificate of the Obligated Group Agent demonstrating that the Historical Maximum Annual Debt Service Coverage Ratio for the most recent Fiscal Year for which consolidated or combined financial statements reported upon by an independent certified public Accountant are available, was not less than 1.25 and (B) a Consultant's report (or, in lieu thereof, an Officer's Certificate of the Obligated Group Agent if the Projected Debt Service Coverage Ratio described in this subsection (B) is 1.75 or greater) to the effect that the Projected Debt Service Coverage Ratio, taking the proposed Additional Indebtedness into account, (x) in the case of Additional Indebtedness (other than a Guaranty) to finance capital improvements, for each of the two Fiscal Years succeeding the date on which such capital improvements are expected to be in operation, or (y) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, for each of the two Fiscal Years succeeding the date on which the Indebtedness or Guaranty is incurred, is not less than 1.40.

The requirements of (a)(ii)(A) and (B) will be deemed satisfied if (i) a Consultant's report filed with the Master Trustee states that applicable laws or regulations have prevented or will prevent the achievement of such debt service coverage ratios, (ii) the Obligated Group has generated Total Income Available for Debt Service in an amount which, in the opinion of such Consultant, the Obligated Group could reasonably have generated given such laws and regulations during the period affected thereby.

(b) Completion Indebtedness of any member of the Obligated Group without limit if there is delivered to the Master Trustee: (i) an Officer's Certificate of the applicable member of the Obligated Group stating that at the time the original Long-Term Indebtedness for the Facilities to be completed was incurred, such Obligated Group member had reason to believe that the proceeds of such Long-Term Indebtedness, together with other moneys then expected to be available, would provide sufficient moneys for the completion of such Facilities; (ii) a statement of an Architect or an expert setting forth the amount estimated to be needed to complete the Facilities, and (iii) an Officer's Certificate of such member of the Obligated Group stating that the proceeds of such Completion Indebtedness to be applied to the completion of the Facilities, together with a reasonable estimate of investment income to be earned on such proceeds and the amount of moneys, if any, committed to such completion by such Obligated Group member or through enumerated bank loans (including letters or lines of credit) or through federal or state grants, will be in an amount not less than the amount set forth in the statement of an architect or other expert referred to in (ii).

(c) Commitment Indebtedness of any member of the Obligated Group or any Guaranty of any Commitment Indebtedness of any member of the Obligated Group without limit.

(d) Long-Term Indebtedness of any member of the Obligated Group incurred for the purpose of refunding, repurchasing or refinancing (whether in advance or otherwise) any outstanding Long-Term Indebtedness; provided, however, that additional Long-Term Indebtedness permitted under this paragraph (d) shall not result in an increase in Maximum Annual Debt Service in excess of 10%.

(e) The conversion without limit of Long-Term Indebtedness of any member of the Obligated Group that is convertible from one interest or payment made to another interest or payment (e.g., weekly to monthly or to a fixed rate) from one mode to another pursuant to the terms of the documentation authorizing such Long-Term Indebtedness.

(f) Subordinated Indebtedness without limit of any member of the Obligated Group or Non-Recourse Indebtedness without limit of any member of the Obligated Group; provided, however, that in the case of Subordinated Indebtedness, the Obligated Group Agent shall have furnished the Master Trustee with a certificate showing that prior to the issuance of such Subordinated Indebtedness, the debt to capitalization ratio of the Obligated Group does not exceed 60%.

(g) Indebtedness incurred in connection with a sale of not more than 25% of accounts receivable with recourse by any member of the Obligated Group consisting of an obligation to repurchase all or a portion of such accounts receivable upon certain conditions, provided that the principal amount of such Indebtedness permitted shall not exceed the aggregate sales price of such accounts receivable received by such Obligated Group member.

(h) Long-Term Indebtedness of any member of the Obligated Group, the principal amount of which at the time incurred, together with the aggregate principal amount of all other Long-Term Indebtedness and Short-Term Indebtedness of the Obligated Group then outstanding, does not exceed 25% of the Total Net Operating Revenues for the most recent Fiscal year for which consolidated or combined financial statements reported upon by an independent certified public Accountant are available.

(i) Long-Term Indebtedness of any member of the Obligated Group if prior to the incurrence thereof an Officer's Certificate of the Obligated Group Agent is delivered to the Master Trustee certifying that, immediately following the incurrence of such Long-Term Indebtedness, the total outstanding Long-Term Indebtedness of the Obligated Group will not exceed 66-2/3% of the sum of the principal amount of all outstanding Long-Term Indebtedness of the Obligated Group, plus the equity accounts of the Obligated Group (i.e., unrestricted fund balances, including any shareholder equity or partnership equity).

Guaranties

Each Obligated Issuer agrees that it will not enter into, or become liable in respect of, or permit any Restricted Affiliate to enter into, or become liable in respect of, any Guaranty dated after the date of the Master Indenture unless the principal amount of the indebtedness being guaranteed could then be incurred as Indebtedness described under the heading "Additional Long-Term Indebtedness," taking into account the assumptions as to calculating the aggregate annual principal and interest payments on, and the principal amount of, the indebtedness being guaranteed, contained in the immediately succeeding paragraph.

In the case of Guaranties of indebtedness that would, if such indebtedness were incurred by a member of the Obligated Group, constitute Long-Term Indebtedness, the aggregate annual principal and interest payments on, and the principal amount of, the Guaranty shall be deemed to be equal to 20% of the principal and interest payments which would be payable on the indebtedness being guaranteed as if such indebtedness were Long-Term Indebtedness of the Guarantor. If at any time the Guaranty becomes due and payable, or if any payment has been made under the Guaranty during the two immediately preceding Fiscal Years, the aggregate annual principal and interest payments on, and the principal amount of, the Guaranty shall, for purposes of this paragraph, be deemed to equal 100% of the principal and interest payable on, and the principal amount of, the indebtedness being guaranteed for the Fiscal Year for which such determination is being made.

Debt Service on Balloon Indebtedness and Variable Rate Indebtedness

For purposes of the covenants and computations required or permitted pursuant to the Master Indenture, it shall be assumed that (A) the interest rate on Variable Rate Indebtedness is equal to the higher of (a) the current rate on the Variable Rate Indebtedness or (b) that rate that is the average of the rate of interest which was in effect on the last day of each of the twelve preceding full calendar months immediately preceding the month in which such calculation is made, provided that if the Variable Rate Indebtedness has not been outstanding for at least twelve full calendar months, the assumed rate of interest for such Variable Rate Indebtedness shall be the rate of interest borne on the date such Variable Rate Indebtedness was issued and (B) the principal of Balloon Indebtedness is amortized:

(i) from the date of calculation thereof over a term equal to twenty (20) years, with level annual debt service payments at an assumed interest rate equal to the Bond Index (provided if the Balloon Indebtedness is also Variable Rate Indebtedness, the assumed interest rate may, at the option of the Obligated Group Agent, be the assumed interest rate applicable to Variable Rate Indebtedness); or

(ii) during the term to the maturity thereof by deposits made to a sinking fund therefor pursuant to the terms of such Balloon Indebtedness or in accordance with a sinking fund schedule established by resolution of the Governing Body of the applicable Obligated Issuer adopted at or subsequent to the time of incurrence of such Balloon Indebtedness, as certified in an Officer's Certificate, provided that, at the time of such calculation, all deposits required to have been made prior to such date shall have been made; or

(iii) the principal of Balloon Indebtedness is due and payable on the specified due date or due dates thereof; or

(iv) with respect to Balloon Indebtedness for which there exists a Credit Facility, the principal of such Balloon Indebtedness is due and payable in the amounts and at the times specified in the Credit Facility or related documents.

Insurance

Each Obligated Issuer will maintain, or cause to be maintained, insurance covering such risks and in such amounts as, in its reasonable judgment, is adequate to protect it and its Property and operations, including (to the extent that such Obligated Issuer is a health care institution) professional liability or medical malpractice insurance, one year's business interruption insurance (if commercially available) and extended coverage property insurance in an amount sufficient to avoid co-insurance. The Master Trustee shall be named as an additional insured on all such insurance policies. The Obligated Group Agent shall retain an Insurance Consultant who will prepare and file with the Master Trustee a report showing the adequacy of such insurance once every two years (such report to be filed as soon as practicable but in no event later than five months after the end of the applicable second Fiscal Year). Each Obligated Issuer will follow any recommendations of the Insurance Consultant to the extent feasible in the opinion of the Obligated Group Agent.

In lieu of maintaining the insurance policies required above, the Obligated Group, or any member thereof, may self-insure any of the required coverages (or a portion thereof), provided that the Obligated Group may not self-insure any required coverage with respect to Property, Plant and Equipment and provided further that the Master Trustee receives a report (as soon as practicable but in no event later than five months after the end of each Fiscal Year) of an Insurance Consultant to the effect that such self-insurance is consistent with proper management and insurance practices. If any member of the Obligated Group elects to self-insure in lieu of maintaining medical liability and malpractice insurance, a report of an Insurance Consultant shall be filed with the Master Trustee annually stating that such Insurance Consultant has reviewed the self-insurance program and that the self-insured Obligated Group Member has available the estimated amount required for the payment of claims and associated claims expenses with respect to such Fiscal Year.

In the event of damage to or destruction of all or any part of the Facilities of the Obligated Group with a Value in excess of five percent (5%) of the Value of all Property of the Obligated Group, the affected Obligated Group member or the Obligated Group Agent shall exercise its best efforts to recover any applicable insurance. Such proceeds shall be paid to the Obligated Group Agent for the payment or reimbursement of reasonable expenses of obtaining the recovery. The Obligated Group Agent shall then give notice to the Master Trustee of such expenses and of the amount of the remaining proceeds (herein called the "Net Proceeds").

Subject to the provisions of any Related Financing Document pertaining to a Permitted Lien, the affected Obligated Group member shall apply the Net Proceeds for any lawful corporate purpose as such Obligated Group member determines, if the Obligated Group Agent shall first have delivered to the Master Trustee an Officer's Certificate stating that the Projected Debt Service Coverage Ratio for each of the next two full succeeding Fiscal Years immediately following the date of such certificate(s), taking into account such damage or destruction and the proposed use of the Net Proceeds is at least 1.10. If the Obligated Group Agent is unable to deliver the foregoing Officer's Certificate, the affected Obligated Group member shall apply the Net Proceeds or so much thereof as may be needed to the repair, replacement, restoration or reconstruction of the affected Facilities or, at the option of the applicable Obligated Group member, to any other capital project of equivalent value and utility, to the acquisition of any Property or to the repayment in whole or in part of any outstanding Obligations in such order of maturity or maturities or proportions as the Obligated Group Agent shall determine.

Any Net Proceeds remaining after compliance by the affected Obligated Group member and the Obligated Group Agent with the immediately preceding paragraph shall be transferred by the Obligated Group Agent to the Master Trustee and applied to the redemption of the outstanding Obligations that directly finance the damaged or condemned facilities and are secured thereby, second to other direct outstanding Obligations of the affected Member of the Obligated Group, and third to the redemption of other outstanding Obligations in such order of maturity or maturities or proportions as the Obligated Group Agent shall determine.

In the event of a taking by eminent domain of all or any part of the Facilities of the Obligated Group with a Value in excess of five percent (5%) of the Value of all Property of the Obligated Group, the affected Obligated Group member or the Obligated Group Agent shall exercise its best efforts to recover any applicable proceeds. Such proceeds shall be paid to the Obligated Group Agent. The Obligated Group Agent shall make appropriate deductions from such proceeds and give notice to the Master Trustee of such deductions and of the amount of the remaining proceeds (also, "Net Proceeds"). The Net Proceeds shall be applied in the same manner as insurance proceeds are applied pursuant to the two immediately preceding paragraphs.

Certain Covenants of the Obligated Issuers

Each Obligated Issuer covenants, among other things, to maintain its corporate or other separate legal existence and to be qualified to do business where such qualification is necessary, to maintain and keep its Facilities in good repair, to conduct its affairs in compliance with all applicable laws and regulations, to pay all lawful taxes and governmental charges and assessments levied or assessed upon or against it or its Property (except that each

Obligated Issuer may withhold such payments where the validity of such taxes and assessments is being contested in good faith), to comply with any covenants and provisions of any Liens upon its property or securing any of its Indebtedness, to procure and maintain all necessary licenses and permits, to maintain accreditation of its health care Facilities and its status as a provider of health care services eligible for reimbursement under government programs (provided, however, that it need not comply with the requirements pertaining to licenses, permits, accreditation and its status as a provider if and to the extent its Governing Body shall have determined in good faith, evidenced by an Officer's Certificate that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its indebtedness when due).

In addition, each Obligated Issuer covenants not to merge with or consolidate with any other person not a member of the Obligated Group or sell or convey all or substantially all of its assets to any person not a member of the Obligated Group unless: (a) the successor corporation (if other than the Obligated Issuer) shall be a person organized and existing under the laws of the United States of America or a state thereof and such person shall become an Obligated Issuer and shall expressly assume the due and punctual payment of the principal of, premium, if any, and interest on all outstanding Obligations according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture by a Supplemental Indenture satisfactory to the Master Trustee, executed and delivered to the Master Trustee by such person; (b) if all amounts due or to become due on any outstanding Related Bonds which bear interest that is not includable in gross income under the Code have not been fully paid to the holders thereof (or provision for such payment has not been made in such manner as will result in the defeasance of the Related Financing Documents), the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on the date of the delivery of any such Related Bonds, would not cause the interest payable on such Related Bonds to become includable in gross income under the Code or adversely affect the validity of such Related Bonds; and (c) there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Agent to the effect that immediately following such transaction, (A) no Event of Default then exists nor, to such officer's knowledge, does there exist any event which, with the passage of time or the giving of notice or both, would or might become an Event of Default under the Master Indenture, and (B) either (1) if one dollar of Additional Indebtedness were incurred, the Obligated Group would meet the tests providing for the incurrence of Long-Term Indebtedness described in subsection (a)(i) or (ii) under the heading Additional Long-Term Indebtedness (assuming for purposes of such Certificate that the Income Available for Debt Service and Indebtedness of such person were Income Available for Debt Service and Indebtedness of an Obligated Issuer), or (2) such transaction will cure any Event of Default then in existence under the Master Indenture, or (3) by reason of such transaction, the Projected Debt Service Coverage Ratio for each of the two Fiscal Years following such release will be greater than the Projected Debt Service Coverage Ratio for such Fiscal Years had such transaction not occurred, and (C) the combined fund balance and net worth, as the case may be, of the Obligated Group will not be less than 90% of such combined fund balance and net worth immediately prior to such transaction.

In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor.

In case of any such consolidation, merger, sale or conveyance, such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued as may be appropriate.

Permitted Encumbrances

No Obligated Issuer will create or suffer to be created or to exist (or permit any Restricted Affiliate to create or suffer to be created or to exist) any Lien upon any of their Property including, without limitation, all proceeds thereof, whether cash or non-cash, now owned or after acquired by any of them, other than Permitted Liens.

Disposition of Property

Each Obligated Issuer agrees that neither it will sell, lease or otherwise dispose of any Property, except for sales, leases or other dispositions of Property:

(a) To another member of the Obligated Group;

(b) To any person if prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate stating that, in the judgment of the officer executing such certificate, such Property has become, or within the next succeeding 24 calendar months is reasonably expected to become, inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property;

(c) To any person provided that prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Agent certifying (1) that Property transferred pursuant to this section in the then-current Fiscal Year by all Obligated Issuers does not exceed 5% of the Value of all Property of the Obligated Group for the immediately preceding Fiscal Year and (2) that Property transferred pursuant to this section in the then-current Fiscal Year and in each of the immediately preceding three Fiscal Years by all Obligated Issuers does not in the aggregate exceed 15% of the Value of all Property of the Obligated Group for the immediately preceding Fiscal Year;

(d) To any person provided that prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Agent, to the effect that immediately after the transfer in question, either (1) if one dollar of Additional Indebtedness were incurred, the Obligated Group would meet the test providing for the incurrence of Long-Term Indebtedness pursuant to subsection (a)(i) or (ii) above contained under the heading Additional Long-Term Indebtedness or (2) such disposition will increase the Projected Debt Service Coverage Ratio in the Fiscal Year immediately following such disposition over what such ratio would have been in such Fiscal Year had such disposition not occurred;

(e) As part of a merger, consolidation, sale or conveyance permitted under the heading "Certain Covenants of the Obligated Issuers";

(f) In the ordinary course of business;

(g) To any person in connection with an operating lease of Property to such person;

(h) Upon fair and reasonable terms no less favorable than would be obtained in a comparable arm's-length transaction;

(i) To any person if the transfer involves any Property received as restricted gifts, grants, bequests or other similar sums or the income thereon, to the extent that such sums may not be pledged or applied to the payment of any Debt Service Requirement or operating expenses generally as a result of restrictions or designations imposed by the donor or maker of the gift, grant, bequest or other sums in question; or

(j) To any person so long as such Property is not encumbered by the Master Deed of Trust and the amount of Property transferred pursuant to this subsection (j) in any Fiscal Year shall not exceed $5,000,000.

To the extent that any Property of the Corporation that is permitted to be sold, leased or otherwise disposed of under the foregoing is encumbered by the Master Deed of Trust or the Master Indenture, upon receipt of an Officer's Certificate directing the Master Trustee to execute a release and/or termination statement with respect to such property to be sold, the Master Trustee shall execute and deliver to the Corporation a release and/or termination statement with respect to such property; provided, however, that no real property encumbered by the Master Deed of Trust shall be sold, leased or otherwise disposed of unless (1) such sale, lease or disposition is permitted under one of the provisions above and the Value of the Property being sold, leased or otherwise disposed of does not exceed $2,500,000 or (2) such Property is sold for fair market value (as determined by an appraisal delivered to the Master Trustee), provided that if such sale is of real property having an aggregate Book Value in excess of $15,000,000, the Corporation shall deliver to the Master Trustee an Officer's Certificate of the Obligated Group Agent to the effect that immediately after the transaction in question the Obligated Group (i) will have a Days Cash on Hand Ratio equal to or greater than 50 and (ii) will be in compliance with the provisions of the Master Indenture relating to rates and charges. In the event that any Property is released from the Master Deed of Trust pursuant to clause (2) of the immediately preceding sentence, the consideration received by the Corporation from the sale of such Property shall be applied to acquisition, construction or equipping of facilities for use by the Obligated Group or to the optional redemption or defeasance of outstanding Related Bonds, provided, however, that if outstanding Related Bonds are insured by the Bond Insurer at the time of such sale, the Bond Insurer shall be entitled to approve the application of any such consideration that is not used to redeem or defease Related Bonds and may in connection with any such approval required the Obligated Group to encumber additional real property pursuant to the Master Deed of Trust with a Value not less than the Value of the Property being released.

Filing of Financial Statements, Certificate of No Default, Other Information

The Obligated Group Agent covenants that it will:

(a) As soon as practicable but in no event later than four months after the end of each Fiscal Year, file, or cause to be filed, with the Master Trustee and, if such persons are then providing a rating with respect to Obligations or any Related Bonds, with each Rating Agency, (i) a combined or consolidated revenue and expense statement of the Corporation, and each other Obligated Issuer, for such Fiscal Year and (ii) a combined or consolidated balance sheet of the Corporation and each other Obligated Issuer as of the end of such Fiscal Year, each accompanied by the required report of an Accountant.

(b) As soon as practicable but in no event later than four months after the end of each Fiscal Year, file with the Master Trustee, an Officer's Certificate of the Obligated Group Agent stating the Historical Debt Service Coverage Ratio and the Historical Maximum Annual Debt Service Coverage Ratio for such Fiscal year, stating that all insurance required by the Master Indenture has been obtained and is in full force and effect, and stating whether or not to the best knowledge of the signers, any Obligated Issuer is in default in the performance of any covenant contained in the Master Indenture, and, if so, specifying each such default of which the signers may have knowledge, and an Officer's Certificate stating the Historical Debt Service Coverage Ratio and the Historical Maximum Annual Debt Service Coverage Ratio for such fiscal year, provided, if either such ratio is less than 1.75 to 1.00, such Officer's Certificate shall be accompanied by a certificate of the accountant whose report accompanies the financial statements referred to in (a) above stating such ratios.

(c) If an Event of Default shall have occurred and be continuing, (i) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs (or of any consolidated group of companies of which it is a member) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records and personnel records and (ii) provide access to its Facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request.

(d) Within 10 days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Indenture requires to be prepared by a Consultant or an insurance consultant.

(e) As soon as practicable, but in no event later than 45 days after the end of each fiscal quarter, file, or cause to be filed, with the Master Trustee (i) a combined or consolidated revenue and expense statement of the Corporation and each other Obligated Issuer for such quarter, and (ii) a combined consolidated balance sheet presented on the basis described in (i) above as of the end of such quarter.

(f) Cause the information described in subsections (a), (b) and (e) above, including the calculations described in subsections (b) and (e) above, in each case any holder of $1,000,000 or more in aggregate principal amount of Related Bonds who has requested such of the Corporation in writing (it being understood that such request may be a standing request).

Rates and Charges

Each Obligated Issuer covenants and agrees to operate, and to cause each of its Restricted Affiliates to operate on a revenue producing basis and to charge, and to cause each of its Restricted Affiliates to charge, such fees and rates for its Facilities and services and to exercise, and to cause each of its Restricted Affiliates to exercise, such skill and diligence as to provide income from its Property together with other available funds sufficient to pay promptly all payments of principal and interest on its Indebtedness, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture to the extent permitted by law, and to use its best efforts to maintain in each Fiscal Year beginning with the Fiscal Year ending June 30, 2001 a ratio of Total Income Available For Debt Service to Maximum Annual Debt Service at least equal to 1.30. Each Obligated Issuer further covenants and agrees that it will from time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of this Section.

If in any Fiscal Year beginning with the Fiscal Year ending June 30, 2001 the Historical Maximum Annual Debt Service Coverage Ratio of the Obligated Group is less than 1.30, the Master Trustee shall require the Obligated Group, at the expense of the Obligated Group, to retain a Consultant to make recommendations with respect to the rates, fees and charges of the Obligated Group and its methods of operation and other factors affecting its financial condition in order to increase such Historical Maximum Annual Debt Service Coverage Ratio to at least 1.30.

A copy of the Consultant's report and recommendations, if any, and any written responses from management of the Corporation, shall be filed with each Obligated Issuer, the Master Trustee, each Related Bond Trustee and each Related Issuer and, upon written request to the Corporation, any holder of at least $1,000,000 in aggregate principal amount of Related Bonds. Each Obligated Issuer shall follow each recommendation of the Consultant applicable to it to the extent feasible (as determined by the Governing Body of such Obligated Issuer) and permitted by law. This Section shall not be construed to prohibit any Obligated Issuer from serving indigent patients to the extent required for such Obligated Issuer to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients without charge or at reduced rates so long as such service does not prevent the Obligated Group from satisfying the other requirements of this Section. So long as the Obligated Group shall retain a Consultant and shall follow such Consultant's recommendations to the extent permitted by law, this Section shall be deemed to have been complied with even if such ratio for any subsequent Fiscal Year is below 1.30:1; provided, however, that in no event shall the Historical Maximum Annual Debt Service Coverage Ratio for any year be less than 1.00:1.

Notwithstanding the provisions of the immediately preceding paragraph, if by the end of the second Fiscal Year after the Fiscal Year (beginning with the Fiscal Year ending June 30, 2001) for which the Obligated Group failed to achieve a Historical Maximum Annual Debt Service Coverage Ratio of at least 1.30:1 the Obligated Group has not achieved a Historical Maximum Annual Debt Service Coverage Ratio of at least 1.30:1, the Obligated Group shall be deemed to be in violation of the provisions of the Master Indenture.

The selection of any Consultant retained pursuant to this section and the scope of such Consultant's activities and recommendations shall be subject to the approval of the Bond Insurer and ratification by each of the Holders of the two largest principal amounts of Uninsured Obligations; provided that the ratification by such Holders shall not be unreasonably withheld.

Liquidity Covenant

The Obligated Group shall maintain Unrestricted Liquid Funds as of the last day of each Fiscal Year to produce a Days Cash on Hand Ratio equal to or greater than 75 as of the last day of each Fiscal Year.

Accreditation

The Corporation shall not fail to maintain any accreditation status currently held by the Corporation with respect to its hospital facilities unless it provides the Master Trustee with a Consultant's opinion to the effect that failure to maintain any such accreditation will not adversely affect the Corporation's hospital facilities. Notwithstanding the foregoing, this Section shall not be construed to require the Corporation to continue to operate any hospital facility or to maintain any accreditation for any hospital facility that is closed.

Hedge Agreements[2*]

The members of the Obligated Group may not enter into a Hedge Agreement without the prior written consent of the Bond Insurer (so long as any outstanding Related Bonds are insured by the Bond Insurer) unless the following conditions are met:

(a) The Hedge Agreement must be entered into as a hedge against (i) swaps currently outstanding (as in basis swaps or reverse swaps), or (ii) debt then outstanding or to be issued, or (iii) as a means of achieving forward transactions, or (iv) against assets held at the time of the execution of the Hedge Agreement;

(b) The Hedge Agreement does not contain any element of leverage or multiplier component in excess of 1.0x unless there is a matching hedge arrangement which effectively offsets the exposure from any such element or component;

(c) If an amount equal to the Maximum Adverse Termination Payment (as defined below) of all of the Hedge Agreements of the Obligated Group, then in effect and those to be executed, determined as noted in (i) and (ii) below, at the time the new Hedge Agreement is to be entered into were excluded from unrestricted cash and investments, the Days Cash on Hand Ratio would still be satisfied;

(i) The Obligated Group Agent shall calculate the Maximum Adverse Termination Amount in three steps. First, the Obligated Group Agent will determine the actual mark-to-market value of all existing Hedge Agreements of the Obligated Group using standard mark-to-market methodology. Second, the Obligated Group Agent will calculate the Adverse Termination Amount (as defined below) of the contemplated derivative based on (ii) below. Third, the Adverse Termination Amount of the contemplated Hedge Agreement will be added to the actual mark-to-market value of all existing Hedge Agreements.

(ii) The methodology for calculating the Adverse Termination Amount for the contemplated Hedge Agreement depends on the type of swap it is. If the contemplated swap is a floating-to-fixed interest rate swap, a fixed-to-floating interest rates swap, or an option to enter into or cancel either of those structures, the Obligated Group Agent will calculate the present value of a 150 basis point loss using standard mark-to-market methodology and will assume taxable and tax-exempt rates both shift 150 basis points on the day of the calculation. This will result in the Adverse Termination Amount for the new swap. If the contemplated swap is a basis swap, a fixed spread basis swap, a constant maturity swap, a spread swap, or a similar structure (with or without an option), the Obligated Group Agent will calculate a 50 basis point loss by multiplying the absolute present value of one basis point in the then current market by -50 (negative fifty), to reflect an adverse change in ratios, spreads, rates, and other market conditions. This will result in the Adverse Termination Amount for the new swap.

(d) The Obligated Group's counterparty (or its guarantor) shall be rated at least "A+" or "A1" by a Rating Agency at the time the Hedge Agreement is entered into and a Credit Support Annex shall, or is required to,

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[2*] By their purchase of the Series 2012A Bonds, the initial holders thereof will consent to an amendment of this section. The amended section will read as follows:

[2]**Hedge Agreements.** The members of the Obligated Group may not enter into a Hedge Agreement unless the following conditions are met:

[2](a) The Hedge Agreement must be entered into as a hedge against (i) swaps currently outstanding (as in basis swaps or reverse swaps), or (b) debt then outstanding or to be issued, or (iii) as a means of achieving forward transactions, or (iv) against assets held at the time of the execution of the Hedge Agreement;

[2](b) The Hedge Agreement does not contain any element of leverage or multiplier component in excess of 1.0x unless there is a matching hedge arrangement which effectively offsets the exposure from any such element or component;

[2](c) The uninsured payment due upon termination of any Hedge Agreement shall be subordinate in right of payment to all Obligations under the Master Indenture issued with respect to the Insured Bonds.

[2](d) The Obligated Group shall not be in default under the Days Cash on Hand Ratio contained in Section 13.1(b)(iv) of this Master Indenture.

[2](e) Notwithstanding the foregoing (a) through (d), the Corporation may assume the Hedge Agreements listed on Exhibit C attached to the Sixteenth Supplemental Master Trust Indenture that have been entered into by Mountain States Properties, Inc., an affiliate of the Corporation.

be executed to provide for collateral on a schedule that incorporates a zero threshold amount if any rating is below BBB+/Baa1;

(e) Termination payments are payable only if and to the extent that after such payment the Obligated Group: (a) would still be in compliance with its Days Cash on Hand Ratio, assuming such payment had been excluded from unrestricted cash and investments in making such liquidity calculation and (b) would not be in default;

(f) Collateral for the payments due under the Hedge Agreement can be posted only to the extent that after such posting the Obligated Group would still be in compliance with the Days Cash on Hand Ratio assuming such posting had been excluded from unrestricted cash and investments in making such liquidity calculation; and

(g) The uninsured payment due upon termination of any Hedge Agreement shall be subordinate in right of payment to all Obligations under the Master Indenture issued with respect to the Insured Bonds.

(h) The term "Adverse Termination Amount" shall mean the amount if positive that would be required to be paid by a member of the Obligated Group that is the party to a Hedge Agreement upon the termination of the Hedge Agreement calculated in the manner provided in subsection (c)(ii) above, and the term "Maximum Adverse Termination Amount" shall be determined in accordance with subsection (c)(i) above.

Projected Debt Service Coverage Ratio

Anything in the Master Indenture to the contrary notwithstanding, in each instance in the Master Indenture in which the Projected Debt Service Coverage Ratio is to be evidenced by an Officer's Certificate, such Projected Debt Service Coverage Ratio must also be evidenced by a Consultant's report unless the Projected Debt Service Coverage Ratio in such Officer's Certificate is greater than 1.75:1.00.

Defaults and Remedies

The following events are "Events of Default" under the Master Indenture:

(a) failure of any Obligated Issuer to make any payment of principal, redemption price or interest when due under the terms of any Obligations and such failure continues to exist as of the end of any applicable grace period; or

(b) failure of any Obligated Issuer to observe or perform any covenant or agreement contained in the Master Indenture or any Related Financing Documents for any Obligations for a period of 30 days after written notice of such failure, requiring the same to be remedied, has been given by the Master Trustee to each of the Obligated Issuers, the giving of which notice shall be at the discretion of the Master Trustee unless the Master Trustee is requested in writing to do so by the holders of at least 25% in aggregate principal amount of all outstanding Obligations, in which event such notice shall be given; provided, however, that if such observance or performance requires work to be done, actions to be taken, or conditions to be remedied, which by their nature cannot reasonably be don, taken or remedied, within such 30-day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as, the defaulting Obligated Issuer shall commence such observance or performance within such 30-day period and shall diligently and continuously prosecute the same to completion; or

(c) (i) default of any Obligated Issuer in the payment of any Indebtedness (other than Obligations issued and outstanding under the Master Indenture), the principal amount of which in the aggregate exceeds 5% of the Book Value of all Property of the Obligated Group for the immediately preceding Fiscal Year, whether such Indebtedness now exists or shall be created after the date of the Master Indenture and any grace period with respect thereto shall have expired, or (ii) any event of default as defined in any Related Financing Documents under which any such Indebtedness may be issued, secured or evidenced shall occur, which default in payment or event of default results in such Indebtedness becoming or being declared due and payable unless within the time allowed for service of a responsive pleading in any proceeding to enforce payment of the Indebtedness under the laws governing such proceeding (i) the Obligated Issuers commence proceedings to contest the existence or payment of such Indebtedness, and (ii) in the absence of such contest, neither the pledge and security interest created under the Master Indenture nor any Property of the Obligated Group will be materially impaired or subject to material loss or forfeiture; or

(d) bankruptcy, dissolution, liquidation or reorganization in bankruptcy of any Obligated Issuer or other similar events; or

(e) if the Hospital Maximum Annual Debt Service Coverage Ratio of the Obligated Group for any Fiscal Year is less than 1.0 to 1; or

(f) a breach of the Alliance's covenant to file audited financial statements as described above under "Filing of Financial Statements, Certificate of No Default, Other Information" under paragraph (a) thereof shall have occurred and be continuing; or

(g) a breach of the Alliance's "Liquidity Covenant" as described above shall have occurred and be continuing.

Upon the occurrence of an Event of Default, the Master Trustee may, by notice in writing to the Obligated Issuers, declare the principal of all (but not less than all) outstanding Obligations to be immediately due and payable provided that the Master Trustee shall be required to make such a declaration (i) if an Event of Default has occurred under subsection (a) above, or (ii) if the Master Trustee is requested to make such a declaration by the Holders of not less than 25% in aggregate principal amount of all outstanding Obligations. If all Events of Default other than nonpayment of amounts that have become due as a result of such declaration are remedied, the Holders of 25% in aggregate principal amount of all Obligations may waive all Events of Default and rescind and annual such declaration of acceleration.

Any acceleration of the principal shall be subject to the condition that if, at any time after the principal of all outstanding Obligations shall have been accelerated, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered: (i) one or more Obligated Issuers shall deposit with the Master Trustee an aggregate sum sufficient to pay (A) all matured installments of interest upon all outstanding Notes and the principal and premium, if any, of all outstanding Notes due otherwise than by acceleration (with interest on overdue installments of interest, to the extent permitted by law and on such principal and premium, if any, at the respective rates borne by such Notes to the date of such deposit) and any other amounts required to be paid pursuant to such Notes, (B) all amounts due under each Indenture Guaranty other than by reason of acceleration, (C) all sums due under any Obligations other than Notes and Indenture Guaranties, other than by reason of acceleration, and (D) the expenses and fees of the Master Trustee; and (ii) any and all Events of Default under the Master Indenture, other than the nonpayment of principal of and accrued interest on outstanding Obligations that have become due by acceleration, shall have been remedied, then and in every such case, the Master Trustee shall, if requested by the Holders of twenty-five percent in aggregate principal amount of all Obligations then outstanding, waive all Events of Default and rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment shall extend to or effect any subsequent Event of Default.

The Master Trustee may, at any time that an Event of Default exists, (i) by written notice to the banking institutions in which any Gross Receipts are deposited pursuant to the requirements of the Master Indenture, direct that such funds be immediately transferred to the Master Trustee, and upon receipt of such funds the same shall be held in trust by the Master Trustee and disbursed as provided in the Master Indenture, and (ii) by written notice to the Obligated Issuers direct that all subsequent deposits of Gross Receipts be made with the Master Trustee.

Upon the occurrence of an Event of Default, as described in the Master Indenture, and upon demand of the Master Trustee, each Obligated Issuer will pay to the Master Trustee, for the benefit of the Holders of all outstanding Obligations, (a) the amount then due and payable on all Obligations for principal or interest, or both, and such other amounts as may be required to be paid on all such Obligations, with interest on the overdue principal and installments of interest (to the extent permitted by law) at the respective rates of interest borne by such Obligations or as is provided in the applicable Supplemental Indenture, and (b) such further amounts sufficient to cover the cost and expenses of collection, including a reasonable compensation to the Master Trustee, its agents, attorneys and counsel, and any expenses incurred by the Master Trustee other than as a result of its gross negligence or bad faith.

The Master Trustee may institute any actions or proceedings at law or in equity for the collection of the sums due and may collect such sums in the manner provided by law out of the Property of the Obligated Issuer wherever situated.

In case there shall be pending proceedings for the bankruptcy or for the reorganization of any Obligated Issuer, or in case a receiver or trustee shall have been appointed for its Property, the Master Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal, premium, if any, interest and any other amounts owing and unpaid in respect of Obligations, and, in case of any judicial proceedings, to file such proofs of claim and other papers as may be necessary or advisable in order to have the claims of the Master Trustee and of the Holders of the Obligations allowed in such judicial proceedings relative to such member of the Obligated Group, its creditors or its Property, and to collect and receive any moneys or other Property payable or deliverable on any such claim and to distribute the same after the deduction of its charges and expenses.

All rights of action and rights to assert claims under any Obligation may be enforced by the Master Trustee without the possession of such Obligation. In any proceedings brought by the Master Trustee (and also any proceedings involving the interpretation of any provision of the Master Indenture to which the Master Trustee shall be a party) the Master Trustee shall be held to represent all the Holders of Obligations, and it shall not be necessary to make any Holders of Obligations parties to such proceedings.

Application of Moneys Collected

Any amounts collected by the Master Trustee in connection with the exercise of any rights and remedies following an Event of Default and, except as otherwise provided in the Master Indenture, all money and Investment Securities on deposit in any funds which the Master Trustee may establish under the Master Indenture from time to time shall be applied for the equal and ratable benefit of the Holders of Obligations in the following order at the date or dates fixed by the Master Trustee for the distribution of such moneys, upon presentment of such Obligations, and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

(a) to the payment of costs and expenses of collection, including fees of Counsel and reasonable compensation to the Master Trustee; and, thereafter,

(b) whether or not the principal of all outstanding Obligations shall have become or have been declared due and payable to Holders of the outstanding Obligations for amounts due and unpaid on the Obligations, ratably, without preference or priority of any kind, according to the amounts due and payable on the Obligations; provided that for the purpose of determining the unpaid amount of any Obligation, there shall be deducted the amount, if any, which has been realized by the Holder by exercise of its rights as a secured party with respect to any Liens permitted pursuant to the Master Indenture or is on deposit in any fund established pursuant to any Related Financing Documents for such Obligations (other than amounts consisting of payments of principal and interest previously made and credited against the payments due under such Obligations) as of the date of payment by the Master Trustee pursuant to this subsection (b), all as certified to the Master Trustee by the Holder; and

(c) to the payment of the remainder, if any, to the Obligated Group Agent, its successors or assigns, or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

Actions by Holders

(a) No Holder of an Obligation shall have any right by virtue of or by availing of any provision of the Master Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to the Master Indenture or for the appointment of a receiver or trustee, or any other remedy, unless the Holders of not less than 25% in aggregate principal amount of Obligations then outstanding shall have made written request upon the Master Trustee to institute such action, suit or proceeding in its own name as Master Trustee and shall have offered to the Master Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities which may be incurred therein or thereby, and the Master Trustee, for 30 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding and no direction inconsistent with such written request shall have been given to the Master Trustee; it being understood and intended, and being expressly covenanted by the Holder of an Obligation and the Master Trustee, that no one or more Holders of Obligations shall have any right in any manner whatever by virtue of or by availing of any provision of the Master Indenture to affect, disturb or prejudice the rights of any other Holder of an Obligation or to obtain or seek to obtain priority over or preference to any other such Holder, or to enforce any right under the Master Indenture, except in the manner therein provided and for the equal, ratable and common benefit of all Holders of Obligations. For the protection and enforcement of these provisions, each and every Holder of an Obligation and the Master Trustee shall be entitled to such relief as can be given either at law or in equity.

(b) The Holder of an Obligation instituting a suit, action or proceeding in compliance with the provisions outlined herein and more fully set forth in the Master Indenture shall be entitled to such suit, action or proceeding to such amounts as shall be sufficient to cover the costs and expenses of collection, including to the extent permitted by applicable law, a reasonable compensation to its Counsel.

(c) Notwithstanding any other provision of the Master Indenture, the right of a Holder of an Obligation to receive payment of the principal of and interest on any Obligation and any other amounts payable thereunder, on or after the respective due dates expressed in such Obligation, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder, provided that any moneys collected through the exercise of rights and remedies of any Holder against any Obligated Issuer pursuant to the Related Financing Documents for an Obligation (other than rights and remedies relating to Liens permitted pursuant to the Master Indenture or to funds and accounts established under such Related Financing Documents) shall be paid over to the Master Trustee or, with the consent of the Holder, collected directly by the Master Trustee.

Direction of Proceedings by Holders

The Holders of 75% in aggregate principal amount of Obligations then outstanding shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred on the Master Trustee; provided, however, that, subject to its right to be indemnified in the Master Indenture, the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee, being advised by Counsel, determines that the action so directed may not lawfully be taken, or if the Master Trustee in good faith shall, by a responsible officer or officers of the Master Trustee, determine that the proceedings so directed would be illegal or involve it in personal liability, and provided further that nothing in the Master Indenture shall impair the right of the Master Trustee in its direction to take any action deemed proper by the Master Trustee and which is not inconsistent with such direction by the Holders.

Delay or Omission of Master Trustee

No delay or omission of the Master Trustee, or of any Holder of an Obligation, to exercise any right or power accruing upon an Event of Default shall impair any such right or power, or be construed as a waiver of any Event of Default or an acquiescence therein, nor shall the action of the Master Trustee or of the Holders of Obligations in case of any Event of Default, or in case of any Event of Default and subsequent waiver of such Event of Default, affect or impair the rights of the Master Trustee or of such Holders in respect of any subsequent Event of Default or any right resulting therefrom.

Remedies Cumulative

No remedy under the Master Indenture is intended to be exclusive of any other remedy, but each and every other such remedy shall be cumulative, and shall be in addition to the remedies pursuant to the Master Indenture; and the employment of any remedy under the Master Indenture or otherwise, shall not prevent the concurrent employment of any such other appropriate remedy or remedies. In the pursuit of any such remedies, the Master Trustee shall have and be vested with the rights of a secured creditor under the Tennessee Uniform Commercial Code (or similar laws of other jurisdictions as applicable) with respect to moneys collected by the Master Trustee pursuant to any provision of the Master Indenture, and shall have the power to foreclose any Lien which may be granted to it as Master Trustee under the Master Indenture, all to the extent permitted by law.

Notice of Default

The Master Trustee shall, within 10 days after the occurrence of an Event of Default known to the Trustee, mail to all Holders of Obligations, as the names and addresses of such Holders appear upon the books maintained by the Master Trustee, and, as long as the Initial Obligation remains outstanding, to the Bond Insurer, notice of such Event of Default under the Master Indenture known to the Master Trustee, unless such Event of Default shall have been cured before the giving of such notice; provided that, except above under "Defaults and Remedies," the Master Trustee shall be protected in withholding such notice if and so long as the Master Trustee in good faith determines that the withholding of such notice is in the interest of the Holders of the Obligations. For purposes of the Master Indenture, matters shall not be considered to be known to the Master Trustee unless an officer of its corporate trust department located at its principal corporate trust office has actual knowledge thereof.

Concerning the Master Trustee

Prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred, the Master Trustee undertakes to perform only those duties specifically set forth in the Master Indenture. In case an Event of Default has occurred, the Master Trustee shall exercise the rights and powers vested in it by the Master Indenture, and use the same degree of care and skill as a prudent man under the circumstances in the conduct of its own affairs.

No provision of the Master Indenture shall be construed to relieve the Master Trustee from liability for its own grossly negligent action, its own grossly negligent failure to act, or its own willful misconduct; provided, however, that:

(i) the Master Trustee shall not be liable for any error of judgment made in good faith by a responsible officer or officers of the Master Trustee, unless it is provided that the Master Trustee was grossly negligent in ascertaining the pertinent facts; and

(ii) the Master Trustee shall not be liable with respect to any action taken or admitted to be taken by it in good faith in accordance with the direction of the Holders of the majority in aggregate principal amount of Obligations then outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee, under the Master Indenture.

Except as otherwise provided in the immediately preceding paragraph:

(a) The Master Trustee may rely and shall be protected in acting or refraining from acting upon various papers or documents believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) An Officer's Certificate (unless otherwise specifically prescribed) shall be sufficient evidence of any request, direction, order or demand of any Obligated Issuer mentioned under the Master Indenture. Any resolution of the Governing Body of an Obligated Issuer may be evidenced to the Master Trustee by copy thereof, certified by the Secretary or an Assistant Secretary of such Obligated Issuer.

(c) The Master Trustee may consult with Counsel, and the advice of such counsel shall be full and complete authorization and protection. The Master Trustee shall be relieved of liability to the Holders of the Obligations and to the Obligated Issuers in respect of any action taken, suffered or omitted by it under the Master Indenture in good faith and in accordance with Counsel's advice.

(d) Prior to the occurrence of an Event of Default under the Master Indenture and after the curing of all Events of Default, the Master Trustee is not bound to make any investigation into facts or matters stated in various papers or documents, unless requested in writing to do so by the Holders of a majority in aggregate principal amount of Obligations then outstanding. As a condition to proceeding with the requested investigation, the Master Trustee, in accordance with the terms of the Master Indenture, may require indemnity against various costs, expenses or liabilities.

(e) The Master Trustee may execute any of the trusts or powers under the Master Indenture or perform any duties under the Master Indenture either directly or by or through agents or attorneys.

(f) The Master Trustee shall be under no responsibility for the approval by it in good faith by an expert or other skilled person for any of the purposes expressed in the Master Indenture.

The recitals contained in the Master Indenture and in the Obligations (other than the Certificate of Authentication on such Obligations) shall be taken as the statements of the Obligated Issuer, and the Master Trustee assumes no responsibility for the correctness thereof. Further, the Master Trustee makes no representations as to the validity or sufficiency of the Master Indenture or the liens and security created thereunder or of the Obligations. The Master Trustee shall not be accountable for the use or application of: any of the Notes or the proceeds of such Obligations, any moneys paid over by the Master Trustee, or any moneys received by any paying agent other than the Master Trustee.

The Master Trustee, in its individual or any other capacity, may become the owner or pledgee of Obligations with the same rights it would have if it were not the Master Trustee under the Master Indenture. Further, the Master Indenture shall not prohibit the Master Trustee from serving as Trustee under any Related Financing Documents or for maintaining a banking relationship with any Obligated Issuer; provided that if the Master Trustee determines that there is a conflict with its duties under the Master Indenture, it shall eliminate the conflict or resign as Master Trustee.

Each Obligated Issuer shall pay, and shall be jointly and severally liable to pay, to the Master Trustee reasonable compensation, reimbursement for all reasonable expenses, disbursement and advances. Each Obligated Issuer shall indemnify, defend and shall be jointly and severally liable to indemnify, the Master Trustee and its officers, directors, employees and agents for, and to hold them harmless against, any loss, liability or expense incurred without gross negligence or willful misconduct on the part of the Master Trustee and arising out of or in connection with the acceptance or administration of such trusts, including the costs and expenses of defending itself against any claim of liability in the premises. The Obligated Issuers' joint and several obligations described in this paragraph shall survive the satisfaction and discharge of the Master Indenture and the resignation, removal and succession of the Master Trustee. Subject only to the rights of any Holder, the Master Trustee shall have an express first and prior lien on any moneys or Investment Securities on the deposit in any funds as security for the payment of all such obligations.

Subject to the first paragraph under this section entitled "Concerning the Master Trustee," any matter may be conclusively proved and established by an Officer's Certificate delivered to the Master Trustee. In the absence of bad faith on the part of the Master Trustee, any such Officer's Certificate shall be full ratification of any action taken, suffered or omitted by the Master Trustee under the provisions of the Master Indenture upon the faith thereof, and the Master Trustee shall not be obligated to make any investigation into the facts stated therein.

The Master Trustee may resign at any time without cause by giving notice as required under the Master Indenture. Further, the Master Trustee may be removed (a) with cause at the direction of the Holders of not less than 66-2/3% in aggregate principal amount of Obligations then outstanding, delivered to the Obligated Group and the Master Trustee, or (b) for any reason at the direction of the Obligation Group Agent if no Event of Default then exists under the Master Indenture. The Master Trustee shall promptly give notice of any removal pursuant to the previous sentence in writing to each Holder of an Obligation then outstanding. In the case of the resignation and removal of the Master Trustee, a successor Master Trustee may be appointed by the Obligated Group unless an Event of Default exists under the Master Indenture. If an Event of Default exists under the Master Indenture, or if the Obligated Group otherwise fails to appoint a successor in accordance with the terms of the Master Indenture, a successor may be appointed at the direction of the Holders of not less than 66-2/3% in aggregate principal amount of Obligations then outstanding.

Any successor Master Trustee, however appointed, in accordance with the terms of the Master Indenture, shall accept such appointment, and, without further act, shall become vested with all the estates, properties, rights, powers and duties of its predecessor under the Master Indenture as if originally named the Master Trustee. The successor Master Trustee may, however, request that its predecessor execute and deliver an instrument transferring the above and assigning, transferring, delivering and paying over to such successor Master Trustee all moneys or other property then held by the predecessor under the Master Indenture.

Any successor Master Trustee, however appointed, shall be a bank or trust company having together with its Affiliates a combined capital and surplus on a consolidated basis of at least $50,000,000.

Any corporation into which the Master Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Master Trustee shall be a party, or any corporation to which substantially all the business of the Master Trustee may be transferred, shall, subject to the immediately preceding paragraph, be the Master Trustee under the Master Indenture without further act.

Subject to the terms and conditions as set forth in the Master Indenture, the Master Trustee shall have the power to appoint one or more persons not unsatisfactory to the Obligated Group Agent to act as Co-Master Trustee.

Modifications

Each Obligated Issuer, when authorized by a resolution of its Governing Body, and the Master Trustee may, without the consent of the holders of the Obligations then outstanding, enter into a Supplemental Indenture to the Master Indenture to (a) provide for the issuance of any Obligations under the Master Indenture, (b) evidence the addition of an Obligated Issuer or the succession of another corporation to any Obligated Issuer, (c) add additional covenants for the protection of the holders of Obligations, (d) cure any ambiguity or defective provision of the Master Indenture or any Supplemental Indenture in such manner as is not inconsistent with and does not impair the security of the Master Indenture or adversely affect the holders of Obligations of any series of Obligations issued under the Master Indenture, (e) qualify the Master Indenture under the Trust Indenture Act of 1939 or under any similar federal statute hereafter enacted, (f) provide for the establishment of additional funds and accounts, (g) permit the issuance of additional forms of Obligations provided such Obligations are equally and ratably secured with all other Obligations issued under the Master Indenture (except as provided herein), and (h) reflect a change in applicable law.

With the consent of the Holders of not less than a majority in aggregate principal amount of Obligations then outstanding, each Obligated Issuer, when authorized by its Governing Body, and the Master Trustee, may from time to time and at any time enter into a Supplemental Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Master Indenture or of any Supplemental Indenture or of modifying in any manner the rights of the Holders of Obligations; provided, however, that (i) without the consent of the Holders of all Obligations whose Obligations are proposed to be modified, no such supplemental indenture shall effect a change in the times, amounts or currency of payment of the principal of, premium, if any, or interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon or permit the preference or priority of any Obligation over any other Obligation; (ii) without the consent of the Holders of all Obligations then outstanding, no such supplemental indenture shall reduce the aforesaid percentage or affected class of Obligations, the Holders of which are required to consent to any such Supplemental Indenture; (iii) without the consent of the Holders of all Obligations then outstanding, no such supplemental indenture shall effect a change in the conditions for withdrawal as a Member of the Obligated Group; (iv) without the consent of the Holders of all Obligations then outstanding, no such supplemental indenture shall effect a change in the provisions permitting the Holders of 25% in aggregate principal amount of all outstanding Obligations to direct acceleration upon the occurrence of an Event of Default; and (v) without the consent of the Holders of all Obligations then outstanding, any provision hereof which specifies a percentage of Holders required to take any action hereunder.

Effect of Supplemental Indenture

Upon the execution of any Supplemental Indenture, the Master Indenture shall be modified and amended in accordance therewith, and the respective rights, limitation of rights, obligations, duties, and immunities under the Master Indenture of the Master Trustee, each Obligated Issuer and the Holders of Obligations issued under the Master Indenture shall thereafter be determined, exercised and enforced under the Master Indenture subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Master Indenture.

Satisfaction and Discharge of Indenture

If the Master Trustee receives: (a) an amount which is (i) in the form of (A) cash, or (B) Government Obligations, and (ii) in a principal amount sufficient, together with the interest thereon and any funds on deposit under the Master Indenture and available for such purpose, to provide for the payment of the principal of and premium, if any, and interest on all outstanding Obligations to and including the maturity date or prior redemption or prepayment date thereof; (b) irrevocable instructions to redeem all Obligations to be redeemed prior to maturity and to notify the Holders of each such redemption; and (c) an amount sufficient to pay or provide for the payment of all other sums payable under the Master Indenture by the Obligated Issuers or any thereof, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Obligated Group Agent, shall execute all such instruments acknowledging satisfaction of and discharging the Master Indenture as requested by the Obligated Group Agent.

Similarly, the Obligated Issuer of any particular Obligation may provide for the payment thereof at or prior to maturity, and the Obligation so provided for shall thereupon cease to be outstanding under the Master Indenture.

In lieu of the foregoing, the Obligated Issuer of any particular Obligation may deliver to the Holder thereof the amount required under the Related Financing Documents to provide for the payment of the principal, premium, if any, and interest due or to become due in respect of such Obligation and such Obligation shall, upon surrender to the Master Trustee for cancellation, no longer be deemed outstanding under the Master Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

Security and Pledge

The Bonds will be secured by the Issuer's grant and assignment under the Bond Indenture of (i) the Issuer's interest in the related Series 2013 Obligation and the Loan Agreement, including but not limited to all revenues and receipts derived by the Issuer therefrom but excluding certain rights of the Issuer to (a) receive attorney fees under the terms of the Loan Agreement, (b) certain indemnification from the Alliance, (c) receive notices under the Loan Agreement, (d) to make advances under the Loan Agreement and (e) to inspect the projects financed with the Bonds, and (ii) all monies and securities in funds held by the Bond Trustee under the Bond Indenture (other than certain funds to be used to make rebate payments to the United States to preserve the tax-exempt status of the Series 2013A Bonds).

During the occurrence and continuation of an Event of Default under the Bond Indenture, the Bond Trustee will have a claim prior to the Bondholders on the moneys derived from the exercise of remedies under the Bond Indenture for payment of its costs and expenses and the repayment of advances made by it to effect performance of certain covenants in the Bond Indenture. The Bond Trustee, however, shall not have any claim or lien upon or with respect to moneys drawn under the Letter of Credit or the proceeds from the remarketing of Bonds.

Provisions for the Bonds

The Bond Indenture provides for the issuance of the Bonds, their redemption and all other terms pertaining to the Bonds. The Bonds will only be authenticated by the Bond Trustee upon the delivery of certain documents, including the original executed Bond Indenture, the Loan Agreement and the Original Letter of Credit.

Mutilated, lost or destroyed Bonds may be replaced subject to certain conditions specified in the Bond Indenture.

General Covenants and Provisions

The Issuer covenants that it will promptly pay the principal and purchase price of premium, if any, and interest on the Bonds subject to the limited nature of such obligations. The Issuer agrees that the Bond Trustee may enforce all rights of the Issuer under the Loan Agreement whether or not the Issuer is in default under the Bond Indenture.

Creation of Funds

The Bond Indenture provides for the creation of certain trust funds into which the proceeds from the sale of the Bonds, payments made by the Alliance under the Loan Agreement and proceeds from drawings on the Letter of Credit are to be deposited. These trust funds are the Bond Fund, the Project Fund (in Series 2103A Bond Indenture only), the Bond Purchase Fund, and the Rebate Fund. Each of these funds is described below.

Bond Fund. Within the Bond Fund, the Bond Trustee is to create a General Account and a Letter of Credit Account. There is to be deposited in the General Account of the Bond Fund all payments made pursuant to the provisions of the Bond Indenture or the Loan Agreement for credit to the Bond Fund and all income derived from the investment of such amounts. The Bond Trustee will also establish a subaccount within the General Account in the Bond Fund for the purpose of holding all Eligible Moneys therein. Moneys held in the Eligible Money Subaccount of the Bond Fund shall not be commingled with any other funds or accounts. The Bond Trustee will credit to the Letter of Credit Account all moneys drawn by the Bond Trustee under the Letter of Credit to pay the principal of and interest on the Bonds. Moneys in the Letter of Credit Account shall not be commingled with any other funds or accounts. Moneys in the Bond Fund shall be used to pay principal, premium, if any, and interest on the Bonds and the redemption price of Bonds.

Project Fund. The moneys and Investment Securities in the Project Fund (in Series 2013A Bond Indenture only) shall be held in trust by the Bond Trustee, shall be applied to the payment of the costs of the projects being financed except to the extent required to be transferred to the Rebate Fund and, pending such application, shall be held as trust funds under the Bond Indenture in favor of holders of the outstanding bonds and for the further security of such holders until paid out or transferred as provided in the Bond Indenture.

Bond Purchase Fund. Within the Bond Purchase Fund, the Bond Trustee is to create a General Account and a Letter of Credit Account. There shall also be established a subaccount within the General Account for the purpose of holding Eligible Moneys therein. Moneys in the Bond Purchase Fund shall be used solely for the payment of the purchase price of the Bonds in the event of any purchase of Bonds at the option of the holder or on a Mandatory Tender Date. Payments received from the proceeds of the remarketing of the Bonds by the Remarketing Agent and all other moneys received by the Bond Trustee under the terms of the Bond Indenture or the Loan Agreement which are required to be deposited in the Bond Purchase Fund shall be credited to the General Account. All moneys drawn by the Bond Trustee under the Letter of Credit for the purchase of Bonds pursuant to the terms of the Bond Indenture shall be credited to the Letter of Credit Account. All moneys in the Bond Purchase Fund remaining on any Optional Tender Date or Mandatory Tender Date after payment of the purchase price of the Bonds purchased shall be paid to the Bank if the Bond Trustee receives prior notice from the Bank stating that certain specified amounts are due and payable to the Bank under the Reimbursement Agreement and any balance remaining after payment to the Bank shall be paid to the Alliance.

Rebate Fund. Any arbitrage profits to be rebated to the United States are to be held in the Rebate Fund. The Series 2013A Bond Indenture contains provisions regarding the responsibility of an independent rebate analyst to calculate the amount of such arbitrage profits.

Investment of Funds. Moneys (other than Eligible Moneys) held in the General Accounts of the Bond Fund and the Bond Purchase Fund (other than remarketing proceeds) and in the Project Fund (in Series 2013A Bond Indenture only) shall be invested by the Bond Trustee as directed by the Alliance in Investment Securities. Eligible Moneys held in the General Accounts of the Bond Fund and the Bond Purchase Fund (other than remarketing proceeds) shall be invested by the Bond Trustee as directed by the Alliance in Government Obligations. Remarketing proceeds shall not be invested. The Bond Trustee shall sell and reduce to cash a sufficient amount of such investments whenever the cash balance in any fund or account is insufficient for the purposes thereof. The Bond Trustee shall not be responsible for any losses on investments made in accordance with the Bond Indenture. The Bond Trustee may make any investments through its own bond department or trust investments department.

Events of Default

The Bond Indenture provides that any of the following events shall constitute an Event of Default:

(a) default in the due and punctual payments of any interest on any Bond when the same shall become due and payable; or

(b) default in the due and punctual payment of the principal of any Bond at its maturity or upon mandatory redemption; or

(c) default in the due and punctual payment of the purchase price of Bonds required to be purchased pursuant to the Bond Indenture when payment of such amount has become due and payable; or

(d) receipt by the Bond Trustee of a written notice from the Bank of an event of default under the Reimbursement Agreement and a demand by the Bank for acceleration of the Bonds; or

(e) the occurrence of an "Event of Default" under the Loan Agreement.

Acceleration

Subject to the rights of the Bank to control remedies, upon the occurrence of any Event of Default described in paragraphs (a), (b), (c) or (f) above, the Bond Trustee may, and at the written request of the Bank or the holders of more than 50% in aggregate principal amount of the outstanding Bonds shall (within one Business Day of its receipt of such written request), and, upon the occurrence and continuance of an Event of Default described in paragraphs (d) or (e) above, the Bond Trustee shall, by notice in writing delivered to the Issuer, the Alliance and the Bank, declare the principal of all the Bonds immediately due and payable, whereupon the same shall become immediately due and payable, anything in the Bond Indenture or in the Bonds to the contrary notwithstanding. Upon any such acceleration, the Bonds and the interest thereon shall forthwith be paid in accordance with the Bond Indenture. Upon any declaration of acceleration under the Bond Indenture, the Bond Trustee shall immediately declare the payments required to be made by the Alliance under the Loan Agreement to be immediately due and payable in accordance with the Loan Agreement and, if during the Letter of Credit Period, shall draw on the Letter of Credit. Upon such a drawing on the Letter of Credit, the Bond Trustee shall immediately pay to the bondholders an amount equal to the principal of and accrued interest on the Bonds.

Other Remedies

Subject to the rights of the Bank to control remedies, upon the occurrence of an Event of Default under the Bond Indenture, the Bond Trustee shall have the power to proceed with any right or remedy available at law or in equity or by statute, as it may deem best, including any suit, action or special proceeding in equity or at law for the collection of amounts due and to become due under the Bond Indenture and under the Bonds or the performance of any covenant or agreement contained in the Bond Indenture or for the enforcement of any proper legal or equitable remedy as the Bond Trustee shall deem most effectual to protect the rights aforesaid, insofar as such may be authorized by law. The rights specified in the Bond Indenture are to be cumulative to all other available rights, remedies or powers.

No delay or omission to exercise any right or remedy accruing upon any Event of Default under the Bond Indenture shall impair any such right or remedy or shall be construed to be a waiver of any such Event of Default or acquiescence therein; and every such right and remedy may be exercised from time to time and as often as may be deemed expedient.

No waiver of any Event of Default under the Bond Indenture, whether by the Bond Trustee or by the bondholders, shall extend to or shall affect any subsequent event of default or shall impair any rights or remedies consequent thereon.

Rights of Bondholders

Upon the occurrence of an Event of Default and if requested to do so by more than two-thirds (2/3) in aggregate principal amount of Bonds then outstanding and being indemnified as provided in the Bond Indenture, the Bond Trustee subject to the provisions of the Bond Indenture, shall be obligated to exercise such one or more of the rights and remedies conferred heretofore as the Bond Trustee, being advised by counsel, shall deem most expedient in the interests of the bondholders and the Bank.

Right of Bondholders to Direct Proceedings

Except in the case of a default under paragraphs (d) and (e) under "Events of Default" and subject to the rights of the Bank to control remedies, the holders of more than two-thirds (2/3) in principal amount of Bonds then outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Bond Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Bond Indenture, or for the appointment of a receiver or any other proceedings under the Bond Indenture.

Application of Moneys

All moneys drawn by the Bond Trustee under the Letter of Credit in connection with any Event of Default shall be deposited in the Letter of Credit Account in the Bond Fund and all other moneys or property received by the Bond Trustee pursuant to any right given or remedy or action taken under the provisions of the Bond Indenture shall, after payment of all fees and expenses of the Bond Trustee, including, without limitation, the costs and expenses of its counsel and agents and the proceedings resulting in the collection of such other moneys and of the related expenses, liabilities and advances incurred or made by the Bond Trustee, be deposited in the General Account in the Bond Fund, and all such moneys shall be paid to the Bond Trustee and applied by it as follows:

(a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST - to the payment to the persons entitled thereto of all installments of interest then due on the outstanding Bonds (other than Borrower Bonds and Pledged Bonds), in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment of such installment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege;

SECOND - to the payment to the persons entitled thereto of the unpaid principal of any of the outstanding Bonds which shall have become due (other than Borrower Bonds and Pledged Bonds), in the order of their due dates, with interest on such Bonds at the rate last borne by the Bonds from the respective dates upon which they became due and, if the amount available shall not be sufficient to pay in full the principal which became due on such Bonds on any particular date, together with such interest, then to the payment thereof ratably, according to the amount of principal due on such date, to the persons entitled thereto, without any discrimination or privilege;

THIRD - to the payment of any amounts owed with respect to Pledged Bonds or owed by the Alliance to the Bank under the Reimbursement Agreement or other related documents or by the Issuer to the Bank under this Bond Indenture in such order as the Bank directs; and

FOURTH - to the payment of the principal of and interest on the Borrower Bonds in the same order of priority as specified in the first and second clauses.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied FIRST, to the payment of the principal and the interest then due and unpaid on the outstanding Bonds (other than Borrower Bonds and Pledged Bonds), without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any such Bond over any other such Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege, SECOND, to the payment of any amounts owed with respect to Pledged Bonds or owed by the Alliance to the Bank under the Reimbursement Agreement or other related documents or by the Issuer to the Bank under this Bond Indenture in such order as the Bank directs and THIRD to the payment of the principal of and interest on the Borrower Bonds in the same manner as other outstanding Bonds.

(c) If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Bond Indenture, in the event that the principal of all the Bonds shall later become due or be declared due and payable, the moneys to be applied shall be applied in accordance with the provisions of paragraph (b) above.

Subject to the provisions regarding acceleration, whenever moneys are to be applied pursuant to the provisions of this Section, such moneys shall be applied at such times, and from time to time, as the Bond Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Bond Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable or unless the principal of all of the Bonds has been declared immediately due and payable, in which case application shall be made immediately) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue provided that such amount of principal is in fact paid on such date. The Bond Trustee shall give such notice to the Holders of the Bonds and the Bank as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment from such moneys to the Holder of any Bonds until such Bond shall be presented to the Bond Trustee.

Rights and Remedies of Bondholders

No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement hereof, for the execution of any trust hereof or for the appointment of a receiver or to enforce any other right or remedy under the Bond Indenture, except subject to the rights of the Bank to control remedies and unless (a) a Default has occurred of which the Bond Trustee has been notified as provided in the Bond Indenture or of which it is deemed to have notice, (b) such Default shall have become an Event of Default and the Holders of more than two-thirds (2/3) in aggregate principal amount of Bonds then outstanding shall have made written request to the Bond Trustee and shall have offered reasonable opportunity to the Bond Trustee either to proceed to exercise the powers granted in the Bond Indenture or to institute such action, suit or proceeding in its own name, and (c) such Bondholders have offered to the Bond Trustee indemnity as provided in the Bond Indenture and the Bond Trustee shall thereafter fail or refuse to exercise the powers granted in the Bond Indenture, or to institute such action, suit or proceeding in its own name. Such notification, request and offer of indemnity are at the option of the Bond Trustee conditions precedent to the execution of the powers and trusts hereof, and to any action or cause of action for the enforcement hereof, or for the appointment of a receiver or for any other right or remedy under the Bond Indenture. Nothing in the Bond Indenture shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal and purchase price of, and interest on, any Bond at and after the date such payment is due, or the obligation of the Issuer or the Bond Trustee to pay the principal and purchase price of, and interest on, each of the Bonds to the respective Holders thereof at the time, place, from the source and in the manner expressed in the Bonds.

Waivers of Events of Default

Subject to the rights of the Bank to control remedies, the Bond Trustee shall waive any Event of Default under the Bond Indenture and its consequences upon the written request of the holders of more than 50% in aggregate principal amount of all Bonds then outstanding, provided, however, that there shall not be waived

(a) any Event of Default pertaining to the payment of the principal or purchase price of any Bond at its maturity, Redemption Date, or Tender Date, or

(b) any Event of Default pertaining to the payment when due of the interest on any Bond unless prior to such waiver, all arrears of interest and all principal or purchase price payments in respect of which such Event of Default shall have occurred, with interest thereon (to the extent permitted by law) for the period from the occurrence of such Event of Default until paid in full at a rate per annum equal to the interest rate payable on the Bonds from time to time during such period in accordance with the terms of the Bonds, and all expenses of the Bond Trustee in connection with such Event of Default, shall have been paid or provided for, and in case of any such waiver, or in case any proceeding taken by the Bond Trustee on account of any such Event of Default shall have been discontinued or abandoned or determined adversely to the Bond Trustee, then and in every such case the Issuer, the Bond Trustee, the Bank and the Bondholders shall be restored to their former positions and rights under the Bond Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default, or impair any right consequent thereon, or

(c) any Event of Default described in paragraphs (d) or (e) under "Events of Default."

If a declaration of acceleration is made pursuant to the Bond Indenture, then and in every such case, the Bond Trustee shall upon the written request of more than two-thirds (2/3) in principal amount of all Bonds then outstanding rescind and annul such declaration, and the consequences thereof, provided that at the time such declaration is rescinded and annulled:

(1) no judgment or decree has been entered for the payment of any moneys due pursuant to the Bonds;

(2) all arrears of interest on all of the Bonds and all other sums payable under the Bonds (except as to principal of, and interest on, the Bonds which have become due and payable by reason of such declaration) shall have been duly paid;

(3) each and every Event of Default under the Bond Indenture shall have been waived pursuant to the preceding paragraph or otherwise made good or cured; and

(4) no drawing shall have been made under the Letter of Credit in connection with or as a result of such declaration of acceleration;

and, provided further, that no such rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon. Notwithstanding the foregoing, neither the Bond Trustee nor the Bondholders shall have the right to waive an Event of Default described in paragraphs (d) or (e) under "Events of Default."

Rights of Bank to Control Remedies and Other Proceedings

Subject to the next paragraph, the Bank shall be entitled to control and direct the enforcement of all remedies and rights granted to the Holders of the Bonds and to the Bond Trustee under the Bond Indenture and all proceedings related thereto, including, without limitation,

(a) the right of the Holders of more than two-thirds (2/3) in aggregate principal amount of outstanding Bonds to request the acceleration of the principal of the Bonds;

(b) the right of the Holders of more than two-thirds (2/3) in aggregate principal amount of outstanding Bonds to request the Bond Trustee to exercise certain remedies and direct the time, method and place of conducting all proceedings;

(c) the right to institute any suit, action or proceeding, pursuant to the Bond Indenture; and

(d) the right of the Holders of more than fifty percent (50%) in aggregate principal amount of outstanding Bonds to waive any Event of Default or to rescind a declaration of acceleration of the principal of the Bonds;

provided that notwithstanding anything in the Bond Indenture to the contrary, the Bank may not direct the Bond Trustee not to accelerate the principal amount of the Bonds and draw on the Letter of Credit upon an Event of Default specified in paragraphs (a), (b) or (c) under "Events of Default."

All rights and remedies given to the Bank in the Bond Indenture and the Loan Agreement are expressly conditioned upon the Bank not being in default in the performance of its obligations under the Letter of Credit, and the Bank shall have no rights or remedies under the Bond Indenture or under the Loan Agreement if it is in default in such performance.

The Bond Trustee

After any Event of Default, the Bond Trustee shall exercise the rights and powers vested in it by the Bond Indenture with the degree of care and skill in their exercise as a prudent man would exercise in the conduct of his own affairs. Otherwise, the Bond Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Bond Indenture, and no implied agreements or obligations shall be read into the Bond Indenture against the Bond Trustee. The Bond Trustee may execute its trusts through its employees, agents or attorneys, and the Bond Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it. In carrying out its duties, the Bond Trustee may rely on any document believed by it to be genuine and to have been signed by the proper person and in determining the existence or nonexistence of any fact or the validity of any instrument, the Bond Trustee may rely on certificates provided by the Issuer or the Alliance. The Bond Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a request or direction received by it from the Bank or the holders of a majority of Bonds Outstanding pursuant to the Bond Indenture.

The Bond Trustee is not required to take notice of any Event of Default under the Bond Indenture except failure by the Issuer to make payments on the Bonds, an Act of Bankruptcy of which it is given notice or Events of Default described in paragraphs (d) or (e) under "Events of Default." Before taking any action under the Bond Indenture or the Loan Agreement other than making a draw on the Letter of Credit, the Bond Trustee may require that a satisfactory indemnity bond be furnished. The Bond Trustee is not responsible for the tax-exempt status of the Series 2013A Bonds. The Bond Trustee is entitled to the payment of its reasonable fees and expenses.

The Bond Trustee may resign by giving written notice to the Issuer, the Alliance, the Bank and the Bondholders, provided that such resignation will not take effect until a successor trustee is appointed. The Bond Trustee may be removed at the written request of the holders of more than two-thirds (2/3) in the principal amount of the outstanding Bonds or by the Alliance (provided no Default or Event of Default has occurred under the Bond Indenture). The holders of more than two-thirds (2/3) in the principal amount of the outstanding Bonds may appoint a successor trustee.

The Bond Trustee will serve as Paying Agent under the Bond Indenture. The Paying Agent may resign by giving written notice to the Issuer, the Trustee, the Alliance, the Bank and the Bondholders, provided that such resignation will not take effect until a successor paying agent is appointed. The Paying Agent may be removed at the written request of the holders of more than 50% in the principal amount of the outstanding Bonds or by the

Alliance (provided no Default or Event of Default has occurred under the Bond Indenture). The holders of more than 50% in the principal amount of the outstanding Bonds may appoint a successor paying agent.

The Remarketing Agent

The Remarketing Agent will set the interest rate on the Bonds, will remarket the Bonds upon purchase and will perform such other duties as are required under the Bond Indenture. The Remarketing Agent may resign by giving 30 days' notice to the Issuer, the Alliance, Bank and Bond Trustee provided that no such resignation shall take effect until a successor Remarketing Agent has been appointed and such successor Remarketing Agent has accepted such appointment. The Remarketing Agent may be removed from time to time by the Alliance.

Supplemental Bond Indentures

The Issuer and the Bond Trustee, without the consent of any of the bondholders may enter into an indenture or indentures supplemental to the Bond Indenture for any one or more of the following purposes: (a) to cure any ambiguity or formal defect or omission in the Bond Indenture or between the terms and provisions of the Bond Indenture and the terms and provisions of any other instrument or document executed in connection therewith or with the issuance of the Bonds; (b) to grant or confer upon the Bond Trustee for the benefit of the Bondholders any additional rights, remedies, power or authority; (c) to subject to the lien of the Bond Indenture additional payments, revenues or collateral; (d) to modify, amend or supplement the Bond Indenture or the bonds in such a manner as to permit qualification thereof under the Trust Indenture Act of 1939 or any federal or state securities law; (e) to evidence the appointment of a co-Bond Trustee or the succession of a new Bond Trustee; (f) to make any other supplement to the Bond Indenture which will not adversely affect the interest of the Bondholders; (g) to obtain or maintain a rating on the Bonds from S&P or Moody's as high as the debt rating of the Bank; (h) to modify or supplement the Bond Indenture in such manner as may be necessary, in the Opinion of Bond Counsel, to comply fully with all applicable rules, rulings, policies, procedures, regulations or other official statements promulgated or proposed by the Department of the Treasury or the Internal Revenue Service; or (i) as may be necessary in connection with the provision of a Substitute Letter of Credit meeting the requirements of the Bond Indenture.

Exclusive of supplemental indentures for the purposes described in the preceding paragraph and subject to the terms and provisions of the Bond Indenture, the holders of not less than two-thirds in aggregate principal amount of the bonds then outstanding shall have the right, from time to time, to consent to and approve the execution by the Issuer and the Bond Trustee of such other indenture or indentures supplemental to the Bond Indenture for the purpose of modifying, amending, adding to or rescinding, in any particular, any of the terms of provisions contained in the Bond Indenture; provided, however, that such modification or amendment shall not permit or be construed as permitting without the consent of the holders of all the Bonds outstanding (a) an extension of the maturity of the principal of, premium, if any, or interest on any of the Bonds, (b) a reduction in the principal amount of, premium, if any, or interest rate on, any Bond (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) a reduction in the aggregate principal amount of the bonds the holders of which are required to consent to any such supplemental indenture, (e) the creation of a lien ranking prior to or on a parity with the lien of the Bond Indenture on the property conveyed and mortgaged pursuant to the Bond Indenture or the deprivation of such lien or (f) the elimination of any mandatory redemption or mandatory purchase of Bonds, extension of the due date for the purchase of the Bonds or call for mandatory redemption or the reduction of the purchase price or Redemption Price for the Bonds.

Any supplemental indenture that affects the rights of the Alliance must be consented to by the Alliance. The Bond Trustee shall also not be required to enter into any supplemental indenture if such action might adversely affect its rights or liabilities. All supplemental indentures entered into during the Letter of Credit Period must be consented to by the Bank.

Amendments to the Loan Agreement

The Issuer may enter into, and the Bond Trustee may consent to, any amendment of or supplement to the Loan Agreement without notice to or consent of any Bondholder, if the amendment or supplement is required (a) by the provisions of the Loan Agreement or the Bond Indenture, (b) to cure any ambiguity, inconsistency or formal defect or omission in the Loan Agreement or between the terms and provisions of the Loan Agreement and the terms and provisions of any other instrument or document executed in connection therewith or with the issuance of the Bonds, (c) to identify more precisely any collateral securing the Bonds, (d) to effect any amendment that does not adversely affect the interests of the Bondholders or (e) to obtain or maintain a rating on the Bonds from S&P or Moody's as high as the debt rating on the Bank.

If an amendment of or supplement to the Loan Agreement without the consent of the Bondholders is not permitted as described in the foregoing paragraph, the Issuer may enter into, and the Bond Trustee may consent to, such amendment or supplement with notice to the Bondholders and with the consent of the holders of at least a two-thirds in principal amount of the Bonds then outstanding. However, no amendment to the Loan Agreement is permitted that would decrease the Trust's unconditional obligation to make payments under the Loan Agreement or that would affect the Trust's obligations as to the use of the proceeds of the Bonds. All amendments to the Loan Agreement entered into during the Letter of Credit Period must be consented to by the Bank.

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

Payments

The Alliance covenants to make all payments required by the Loan Agreement, as and when the same become due. Pursuant to the Loan Agreement, the Alliance agrees to make payments of principal, interest and purchase price identical to payments (including payments of principal upon redemption and acceleration) due by the Issuer under the Bonds. The obligations of the Alliance to make payments under the Loan Agreement shall be deemed satisfied to the extent of a corresponding payment made by the Bank to the Bond Trustee under the Letter of Credit. The Alliance also covenants to pay the reasonable fees and expenses of the Bond Trustee and the Issuer.

Special Representations and Covenants

Indemnification. The Alliance agrees that it will indemnify and save harmless the Issuer, City of Johnson, Tennessee, the Bond Trustee, the Remarketing Agent and the Bank from and against all liabilities, losses, expenses and damages arising generally from the operation of the projects financed with the Bonds or the failure of the Alliance to comply with its covenants or any term or condition contained in the Loan Agreement and any documents relating thereto.

Sale of Facilities. The Alliance may not sell, convey or lease the facilities financed or refinanced with the proceeds of the Bonds or any significant portion thereof unless the Alliance delivers to the Bond Trustee an Opinion of Bond Counsel that such sale, conveyance or lease will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In connection with any such sale during the Letter of Credit Period, another party may assume the obligations of the Alliance under the Borrower Documents, and the Alliance may be released from liability therefrom with the written consent of the Bank.

Miscellaneous Covenants. The Alliance agrees to notify the Bank, the Issuer and the Bond Trustee if a petition in bankruptcy is filed against it.

Events of Default and Remedies on Default

The occurrence of any of the following events shall constitute an event of default under the Loan Agreement:

(a) If the Alliance shall fail to make any payment with respect to the principal and purchase price of or interest on the Bonds when the same becomes due and payable.

(b) If the Alliance shall fail to observe or perform any of its other covenants, conditions, or agreements under the Loan Agreement for a period of 30 days after notice (unless the Bank shall consent to an extension of such time), or in the case of any such default that cannot be cured within such 30-day period, if the

Alliance shall fail to take corrective action to cure such default and diligently pursue such action until such failure is cured.

(c) If the Alliance shall (1) fail to pay generally its debts as they become due, (2) commence a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent or fail to object to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for the Alliance or any substantial part of its property, or to the taking possession by any such official of any substantial part of the property of the Alliance, (4) make any assignment for the benefit of creditors, or (5) take corporate action in contemplation or in furtherance of any of the foregoing.

(d) If there shall occur the commencement of a voluntary or involuntary case by or against the Alliance under the Federal bankruptcy laws, as now or hereinafter constituted, provided, however, that if an involuntary case in bankruptcy is commenced against the Alliance prior to the 120th day before payment of the Bonds (whether at maturity, by acceleration, demand for prepayment, call for redemption or otherwise), the filing of such petition shall not constitute an Event of Default if such petition is dismissed, subject to no further review, within 60 days thereafter.

(e) If any warranty, representation or other statement by or on behalf of the Alliance contained in the Loan Agreement or in any instrument furnished in connection with the issuance or sale of the Bonds shall prove to have been false or misleading in any material respect at the time it was made or delivered.

(f) If an Event of Default under the Bond Indenture shall occur and continue.

Upon an occurrence of an Event of Default, the Bond Trustee shall immediately notify the Bank and may:

(a) With the written consent of the Bank (provided such written consent shall not be required (1) if there is no Letter of Credit, or (2) if the Event of Default is due to the fact that there has been a default in the payment of the principal and purchase price or interest on the Bonds), declare all payments under the Loan Agreement and the Bonds to be immediately due and payable in an amount sufficient to pay all the principal of and premium, if any, and accrued interest on the Bonds, whereupon the same shall become immediately due and payable.

(b) Take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under the Loan Agreement or to enforce observance or performance of any covenant, condition or agreement of the Alliance.

Option to Prepay Obligations under Loan Agreement

The Alliance shall have the option to prepay its obligations under the Loan Agreement in whole or in part to the extent that the Bonds are redeemable under the provisions of the Bond Indenture. If the Alliance intends that such prepayment shall result in a redemption in whole or in part of the Bonds, the Alliance shall take such action as is required under the Bond Indenture to cause the Bonds to be redeemed. In the event the Alliance intends that such prepayment to cause the discharge of the lien of the Bond Indenture under the provisions thereof, the Alliance shall comply with such provisions.

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APPENDIX D

PROPOSED FORMS OF OPINIONS OF BOND COUNSEL

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[Opinion of Bass Berry Sims]

July 30, 2013

The Health and Educational Facilities Board
of the City of Johnson City, Tennessee
Johnson City, Tennessee

The Bank of New York Mellon Trust Company, N.A.,
Bond Trustee and Master Trustee
St. Louis, Missouri

U.S. Bank National Association
St. Louis, Missouri

Merrill Lynch, Pierce, Fenner & Smith Incorporated
New York, New York

Re: The Health and Educational Facilities Board of the City of Johnson City, Tennessee $16,235,000 Hospital Revenue Bonds (Mountain States Health Alliance), Series 2013A

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by The Health and Educational Facilities Board of the City of Johnson City, Tennessee (the "Issuer") of its $16,235,000 Hospital Revenue Bonds (Mountain States Health Alliance), Series 2013A (the "Series 2013A Bonds"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion. Reference is made to the forms of the Series 2013A Bonds for additional information concerning their details, payment and redemption provisions and the proceedings pursuant to which they were issued.

The Series 2013A Bonds are issued pursuant to a Bond Trust Indenture dated as of July 1, 2013 (the "Series 2013A Bond Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the "Series 2013A Bond Trustee"). The proceeds from the sale of the Series 2013A Bonds will be loaned by the Issuer to Mountain States Health Alliance, a not-for-profit corporation incorporated under the laws of the State of Tennessee (the "Alliance"), under a Loan Agreement dated as of July 1, 2013 (the "Series 2013A Loan Agreement"), between the Issuer and the Alliance, which loan will be evidenced by the $16,235,000 Mountain States Health Alliance Note, Series 2013A (The Health and Educational Facilities Board of the City of Johnson City, Tennessee) (the "Series 2013A Obligation") issued pursuant to an Amended and Restated Master Trust Indenture dated as of February 1, 2000, as heretofore amended and as amended by a Thirty-Ninth Supplemental Master Trust Indenture dated as of July 1, 2013 (collectively, the "Master Indenture"), between the Alliance and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee"). Under the Series 2013A Loan Agreement and the Series 2013A Obligation, the Alliance has agreed to make payments to be used to pay when due the principal of and premium, if any, and interest on the Series 2013A Bonds, and such payments and other revenues under the Series 2013A Loan Agreement and the Series 2013A Obligation (collectively, the "2013A Revenues") and the rights of the Issuer under the Series 2013A Loan Agreement (except certain rights to indemnification, reimbursement and administrative fees) are pledged and assigned by the Issuer as security for the Series 2013A Bonds.

U.S. Bank National Association (the "Bank"), has issued an irrevocable letter of credit dated the date hereof (the "2013A Letter of Credit") to secure payment of the principal of and up to 37 days' accrued interest on the Series 2013A Bonds which expires, unless extended, on July 30, 2018.

The Series 2013A Bonds are payable solely from the 2013A Revenues and draws on the 2013A Letter of Credit.

Reference is made to an opinion of even date of Anderson & Fugate, counsel to the Alliance, with respect, among other matters, to the corporate status, good standing and qualification to do business of the Alliance, the corporate power of the Alliance to enter into and perform the Series 2013A Loan Agreement, the Series 2013A Obligation and the Master Indenture and the authorization, execution and delivery of the Series 2013A Loan Agreement, the Series 2013A Obligation and the Master Indenture by the Alliance and with respect to the Series 2013A Loan Agreement, the Series 2013A Obligation and the Master Indenture being binding and enforceable upon the Alliance.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer and the Alliance contained in the Series 2013A Bond Indenture and the Series 2013A Loan Agreement, the certified proceedings and other certifications of public officials furnished to us, and certifications furnished to us by or on behalf of the Alliance (including certifications as to the use of bond proceeds and other bond issues which are material to paragraph 4 below), without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is duly created and validly existing as a public, nonprofit corporation, organized and existing under the laws of the State of Tennessee with the corporate power to enter into and perform the Bond Indenture and issue the Series 2013A Bonds.

2. The Series 2013A Bond Indenture has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Series 2013A Issuer enforceable against the Issuer. The Series 2013A Bond Indenture creates a valid lien on the Revenues and on the rights of the Issuer under the Series 2013A Loan Agreement (except certain rights to indemnification, reimbursement and administrative fees) for the benefit of the Series 2013A Bonds.

3. The Series 2013A Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding special obligations of the Issuer, payable solely from the Series 2013A Revenues and draws on the Series 2013A Letter of Credit.

4. Interest on the Series 2013A Bonds (a) will not be included in gross income for federal income tax purposes and (b) will not be an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum income tax on corporations. The foregoing opinion is given in reliance upon certifications by representatives of the Issuer and the Alliance as to certain facts relevant to both the opinion and the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Issuer and/or the Alliance have covenanted to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Series 2013A Bonds and the timely payment of arbitrage profits with respect to the Series 2013A Bonds to the United States. Failure by the Issuer or the Alliance to comply with such covenants could cause interest on the Series 2013A Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue. We express no opinion regarding other federal tax consequences arising with respect to the Series 2013A Bonds.

5. The Series 2013A Bonds and the income therefrom shall be exempt from all state, county and municipal taxation in Tennessee except (a) inheritance, gift and estate taxes, (b) excise taxes on all or a portion of the interest on any of the Series 2013A Bonds during the period such Series 2013A Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Series 2013A Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership.

It is to be understood that the rights of the holders of the Series 2013A Bonds and the enforceability of the Series 2013A Bonds and the Series 2013A Bond Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights heretofore and hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Our services as bond counsel have been limited to rendering the foregoing opinion based on our review of such proceedings and documents as we deem necessary to approve the validity of the Series 2013A Bonds and the excludability of the interest on the Series 2013A Bonds from gross income for federal income tax purposes. We have not made any investigation concerning the financial resources of the Alliance and, therefore, we express no opinion as to the business or financial resources of the Alliance, its ability to provide for the payment of the Series 2013A Bonds or the accuracy or completeness of any information, including the Official Statement relating to the Series 2013A Bonds that may have been relied on by anyone in making the decision to purchase the Series 2013A Bonds.

Very truly yours,

[Opinion of Bass Berry Sims]

July 30, 2013

The Health and Educational Facilities Board
of the City of Johnson City, Tennessee
Johnson City, Tennessee

The Bank of New York Mellon Trust Company, N.A.,
Bond Trustee and Master Trustee
St. Louis, Missouri

U.S. Bank National Association
St. Louis, Missouri

Merrill Lynch, Pierce, Fenner & Smith Incorporated
New York, New York

Re: The Health and Educational Facilities Board of the City of Johnson City, Tennessee $99,680,000 Taxable Hospital Refunding Revenue Bonds (Mountain States Health Alliance), Series 2013B

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by The Health and Educational Facilities Board of the City of Johnson City, Tennessee (the "Issuer") of its $99,680,000 Taxable Hospital Refunding Revenue Bonds (Mountain States Health Alliance), Series 2013B (the "Series 2013B Bonds"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion. Reference is made to the forms of the Series 2013B Bonds for additional information concerning their details, payment and redemption provisions and the proceedings pursuant to which they were issued.

The Series 2013B Bonds are issued pursuant to a Bond Trust Indenture dated as of July 1, 2013 (the "Series 2013B Bond Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the "Series 2013B Bond Trustee"). The proceeds from the sale of the Series 2013B Bonds will be loaned by the Issuer to Mountain States Health Alliance, a not-for-profit corporation incorporated under the laws of the State of Tennessee (the "Alliance"), under a Loan Agreement dated as of July 1, 2013 (the "Series 2013B Loan Agreement"), between the Issuer and the Alliance, which loan will be evidenced by the $99,680,000 Mountain States Health Alliance Note, Series 2013B (The Health and Educational Facilities Board of the City of Johnson City, Tennessee) (the "Series 2013B Obligation") issued pursuant to an Amended and Restated Master Trust Indenture dated as of February 1, 2000, as heretofore amended and as amended by a Thirty-Ninth Supplemental Master Trust Indenture dated as of July 1, 2013 (collectively, the "Master Indenture"), between the Alliance and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee"). Under the Series 2013B Loan Agreement and the Series 2013B Obligation, the Alliance has agreed to make payments to be used to pay when due the principal of and premium, if any, and interest on the Series 2013B Bonds, and such payments and other revenues under the Series 2013B Loan Agreement and the Series 2013B Obligation (collectively, the "2013B Revenues") and the rights of the Issuer under the Series 2013B Loan Agreement (except certain rights to indemnification, reimbursement and administrative fees) are pledged and assigned by the Issuer as security for the Series 2013B Bonds.

U.S. Bank National Association (the "Bank"), has issued an irrevocable letter of credit dated the date hereof (the "2013B Letter of Credit") to secure payment of the principal of and up to 37 days' accrued interest on the Series 2013B Bonds which expires, unless extended, on July 30, 2018.

The Series 2013B Bonds are payable solely from the 2013B Revenues and draws on the 2013B Letter of Credit.

Reference is made to an opinion of even date of Anderson & Fugate, counsel to the Alliance, with respect, among other matters, to the corporate status, good standing and qualification to do business of the Alliance, the corporate power of the Alliance to enter into and perform the Series 2013B Loan Agreement, the Series 2013B Obligation and the Master Indenture and the authorization, execution and delivery of the Series 2013B Loan Agreement, the Series 2013B Obligation and the Master Indenture by the Alliance and with respect to the Series 2013B Loan Agreement, the Series 2013B Obligation and the Master Indenture being binding and enforceable upon the Alliance.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer and the Alliance contained in the Series 2013B Bond Indenture and the Series 2013B Loan Agreement, the certified proceedings and other certifications of public officials furnished to us, and certifications furnished to us by or on behalf of the Alliance (including certifications as to the use of bond proceeds and other bond issues which are material to paragraph 4 below), without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is duly created and validly existing as a public, nonprofit corporation, organized and existing under the laws of the State of Tennessee with the corporate power to enter into and perform the Bond Indenture and issue the Series 2013B Bonds.

2. The Series 2013B Bond Indenture has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Series 2013B Issuer enforceable against the Issuer. The Series 2013B Bond Indenture creates a valid lien on the Revenues and on the rights of the Issuer under the Series 2013B Loan Agreement (except certain rights to indemnification, reimbursement and administrative fees) for the benefit of the Series 2013B Bonds.

3. The Series 2013B Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding special obligations of the Issuer, payable solely from the Series 2013B Revenues and draws on the Series 2013B Letter of Credit.

4. The Series 2013B Bonds and the income therefrom shall be exempt from all state, county and municipal taxation in Tennessee except (a) inheritance, gift and estate taxes, (b) excise taxes on all or a portion of the interest on any of the Series 2013B Bonds during the period such Series 2013B Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Series 2013B Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership.

It is to be understood that the rights of the holders of the Series 2013B Bonds and the enforceability of the Series 2013B Bonds and the Series 2013B Bond Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights heretofore and hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Our services as bond counsel have been limited to rendering the foregoing opinion based on our review of such proceedings and documents as we deem necessary to approve the validity of the Series 2013B Bonds. We have not made any investigation concerning the financial resources of the Alliance and, therefore, we express no opinion as to the business or financial resources of the Alliance, its ability to provide for the payment of the Series 2013B Bonds or the accuracy or completeness of any information, including the Official Statement relating to the Series 2013B Bonds that may have been relied on by anyone in making the decision to purchase the Series 2013B Bonds.

Very truly yours,

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APPENDIX E

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Agreement") is executed by the Mountain States Health Alliance, a Tennessee nonprofit corporation (the "Alliance), in connection with the issuance by the Health and Educational Facilities Board of the City of Johnson City, Tennessee, of its $16,235,000 Hospital Revenue Bonds (Mountain States Health Alliance) Series 2013A (the "Series 2013A Bonds") and its $99,680,000 Taxable Hospital Refunding Revenue Bonds, Series 2013B (the "Series 2013B Bonds" and, together with the Series 2013A Bonds, the "Bonds").

1. Purpose of the Agreement

This Agreement is being executed and delivered by the Alliance for the benefit of the Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the Rule (as hereinafter defined).

2. Definitions

Except as otherwise indicated, any capitalized terms used, but not defined herein shall have the meaning assigned to them in the bond indenture pursuant to which the Bonds were issued. The following capitalized terms when used in this Agreement will have the following meanings:

"Annual Disclosure" means the annual financial information, audited financial statements prepared in accordance with generally accepted accounting principles and the operating data, all to be provided by the Alliance with respect to itself and any future Obligated Issuer pursuant to the Rule and this Agreement, as provided in Section 4.

"Beneficial Owner" means any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Listed Events" means any of the events listed below under "Reporting of Significant Events."

"MSRB" means the Municipal Securities Rulemaking Board, or any successor thereto. Currently, the MSRB's address is: MSRB, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314, Attn: Disclosure.

"Official Statement" means the Official Statement dated July 25, 2013, pursuant to which the Bonds were sold.

"Quarterly Disclosure" means the provision of the Quarterly Financial Information and any other financial information as provided in Section 5.

"Quarterly Financial Information" means (i) the Alliance's quarterly financial results in the form of its unaudited quarterly statement of excess of revenue over expenses and its unaudited quarterly balance sheet, each on a consolidated basis for the combined Obligated Group (as defined in the bond documents pursuant to which the Bonds are issued) and (ii) two calculations of the Historical Maximum Annual Debt Service Coverage Ratio (one utilizing a *pro forma* Total Income Available for Debt Service based upon the results of such quarter and the other utilizing Total Income Available for Debt Service over the rolling twelve-month period ended with the end of such quarter).

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as previously amended and as the same may be amended from time to time.

"Underwriter" means Merrill Lynch, Pierce, Fenner & Smith Incorporated.

3. Provision of Annual Disclosure and Quarterly Disclosure

Not later than four months after the end of each fiscal year, the Alliance will file its Annual Disclosure with the MSRB. The Annual Disclosure may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided below.

Not later than 45 days after the end of each quarter of the Alliance's fiscal year the Alliance shall file its Quarterly Financial Information with the MSRB.

If the Annual Disclosure is not filed as provided in the preceding paragraph, the Alliance will send a notice to that effect to the MSRB.

4. Content of Annual Disclosure

The Alliance and any future Obligated Issuer shall provide and incorporate the following information in its Annual Disclosure:

(a) The audited financial statements of the Alliance and any future Obligated Issuer whose operations are not reflected in the audited financial statements of the Alliance; and

(b) To the extent not included in the audited financial statements of the Alliance, the Alliance annually will make available the following financial and operating data:

(i) The patient origin analysis from all service areas as a percent of the discharges in Alliance-owned facilities for the prior 12 month period, as set forth under the caption "SERVICE AREA, MARKET SHARE AND COMPETITION – Patient Origin – Alliance Facilities Patient Origin by Fiscal Year" in Appendix A of the Official Statements.

(ii) The percentage of gross patient revenues received by the Alliance from each program (i.e., Medicare, TennCare/Medicaid, Managed Care, Commercial and Other, and Private Pay) for the most recently concluded fiscal year, as set forth under the caption "SOURCES OF REVENUE – Gross Patient Revenues by Source of Payment (Payor Mix)" in Appendix A of the Official Statements.

(iii) The historic patient utilization for the Alliance and aggregate utilization for all divisions for the prior 12-month period ending June 30, as set forth in the table under the caption "HISTORICAL UTILIZATION INFORMATION" in Appendix A of the Official Statements.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Alliance is an "obligated person" (as defined by the Rule), which have been filed in accordance with the Rule and the other rules of the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must have been filed with and be available from the MSRB. The Alliance must clearly identify each such other document so incorporated by reference.

5. Content of Quarterly Disclosure

The Alliance's Quarterly Disclosure will contain its Quarterly Financial Information.

6. Reporting of Significant Events

The following are Listed Events:

(a) principal and interest payment delinquencies;
(b) non-payment related defaults, if material;
(c) unscheduled draws on debt service reserves reflecting financial difficulties;

(d) unscheduled draws on any credit enhancement reflecting financial difficulties;

(e) substitution of credit or liquidity providers, or their failure to perform;

(f) adverse tax opinions; the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(g) modifications of rights of the holders of the Bonds, if material;

(h) bond calls, if material, and tender offers;

(i) defeasance of all or any portion of the Bonds;

(j) release, substitution, or sale of property securing repayment of the Bonds, if material;

(k) rating changes;

(l) bankruptcy, insolvency, receivership or similar event of the Alliance;

(m) the consummation of a merger, consolidation, or acquisition involving the Alliance or the sale of all or substantially all of the assets of the Alliance, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

If the Alliance obtains knowledge of the occurrence of a Listed Event, the Alliance shall, in a timely manner not in excess of ten business days after the occurrence of the event, file a notice of such occurrence with the MSRB. Notice of Listed Events described in subsections (h) and (i) will be disseminated automatically, but will not be given any earlier than the notice (if any) of the underlying event is given to the Beneficial Owners of affected Bonds pursuant to the governing bond documents. The content of any notice of the occurrence of a Listed Event will be determined by the Alliance in accordance with the requirements of the Rule.

7. Filing Method

Any filing required hereunder shall be made by transmitting such disclosure, notice or other information in electronic format to the MSRB through the MSRB's Electronic Municipal Market Access (EMMA) system pursuant to procedures promulgated by the MSRB.

8. Termination of Reporting Obligation

The Alliance's obligations under this Agreement will terminate upon the defeasance (within the meaning of the Rule), prior redemption or payment in full of all of the Bonds. The Alliance will notify the MSRB that the Alliance's obligations under this Agreement have terminated. If the Alliance's obligations are assumed in full by some other entity, such person will be responsible for compliance with this Agreement in the same manner as if it were the Alliance and the Alliance will have no further responsibility hereunder.

9. Dissemination Agent

The Alliance may, from time to time, appoint a dissemination agent to assist it in carrying out its obligations under this Agreement, and the Alliance may, from time to time, discharge the dissemination agent, with or without appointing a successor dissemination agent. If at any time there is not a designated dissemination agent, the Alliance will be the dissemination agent.

10. Amendment

This Agreement may not be amended unless independent counsel experienced in securities law matters has rendered an opinion to the Alliance to the effect that the amendment does not violate the provisions of the Rule.

In the event that this Agreement is amended or any provision of this Agreement is waived, the notice of a Listed Event pursuant to subsection (6) under the heading "Reporting of Significant Events" will explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided in the Annual Disclosure. If an amendment or waiver is made in this

Agreement which allows for a change in the accounting principles to be used in preparing financial statements, the Annual Disclosure for the year in which allows for a change in the accounting principles to be used in preparing financial statements, the Annual Disclosure for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison will include a qualitative discussion of the differences in the accounting principles and impact of the change in the accounting principles on the presentation of the financial information. A notice of the change in the accounting principles will be deemed to be material and will be filed with the MSRB.

11. Additional Information

Any registered owner of $1,000,000 or more in principal amount of Bonds shall receive, upon written request, any of the Annual Financial Information, Audited Financial Information or Quarterly Financial Information directly from the Alliance, by sending such request to Mountain States Health Alliance, 400 North State of Franklin Road, Johnson City, Tennessee 37604, Attn: Chief Financial Officer.

Nothing in this Agreement will be deemed to prevent the Alliance from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Disclosure or notice of occurrence of a Listed Event, in addition to that which is required by this Agreement. If the Alliance chooses to include any information in any Annual Disclosure or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Agreement, the Alliance will have no obligation under this Agreement to update such information or include it any future Annual Disclosure or notice of occurrence of a Listed Event.

12. Default

In the event of a failure of the Alliance to comply with any provision of this Agreement, the Underwriter or any Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Alliance to comply with its obligations under this Agreement. A default under this Agreement will not be deemed an Event of Default under the bond documents, and the sole remedy under this Agreement in the event of any failure of any party to comply with this Agreement will be an action to compel performance.

Acting by and through its duly authorized officer, the Alliance has caused this Continuing Disclosure Agreement to be executed under seal as of the 30th day of July, 2013.

MOUNTAIN STATES HEALTH ALLIANCE

By: ____
Its: Senior Vice President and
Chief Financial Officer

THE BANK

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CERTAIN INFORMATION CONCERNING
U.S. BANK NATIONAL ASSOCIATION

The delivery of this Appendix to the Official Statement shall not create any implication that there has been no change in the affairs of U.S. Bank since the date hereof, or that the information contained or referred to in this Appendix F is correct as of any time subsequent to its date.

U.S. Bank National Association ("USBNA") is a national banking association organized under the laws of the United States and is the largest subsidiary of U.S. Bancorp. At March 31, 2013, USBNA reported total assets of $346 billion, total deposits of $252 billion and total shareholders' equity of $40 billion. The foregoing financial information regarding USBNA has been derived from and is qualified in its entirety by the unaudited financial information contained in the Federal Financial Institutions Examination Council report Form 031, Consolidated Report of Condition and Income for a Bank with Domestic and Foreign Offices ("Call Report"), for the quarter ended March 31, 2013. The publicly available portions of the quarterly Call Reports with respect to USBNA are on file with, and available upon request from, the FDIC, 550 17th Street, NW, Washington, D.C. 20429 or by calling the FDIC at (877) 275-3342. The FDIC also maintains an Internet website at www.fdic.gov that contains reports and certain other information regarding depository institutions such as USBNA. Reports and other information about USBNA are available to the public at the offices of the Comptroller of the Currency at One Financial Place, Suite 2700, 440 South LaSalle Street, Chicago, IL 60605.

U.S. Bancorp is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, files reports and other information with the Securities and Exchange Commission (the "SEC"). U.S. Bancorp is not guaranteeing the obligations of USBNA and is not otherwise liable for the obligations of USBNA.

Except for the contents of this section, USBNA and U.S. Bancorp assume no responsibility for the nature, contents, accuracy or completeness of the information set forth in this Official Statement.

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APPENDIX G

BOOK-ENTRY ONLY SYSTEM

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BOOK-ENTRY ONLY SYSTEM

The description which follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Bonds, payments of principal of and premium, if any, and interest on the Bonds to The Depository Trust Company, New York, New York, its nominee, Participants or Beneficial Owners (each as hereinafter defined), confirmation and transfer of beneficial ownership interests in the Bonds and other bond-related transactions by and between DTC, Participants and Beneficial Owners is based solely on information furnished by DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each Series of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

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

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners, however, are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Alliance or the Bond Trustee on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, the Issuer or the Alliance, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Alliance or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Alliance. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates will be printed and delivered.

The Issuer or the Alliance may decide to discontinue the Issuer's use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

Neither the Issuer nor the Registrar has any responsibility or obligation to the Direct or Indirect Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Direct or Indirect Participant; (b) the payment by any Direct or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Bonds; (c) the delivery or timeliness of delivery by any Direct or Indirect Participant of any notice to any Beneficial Owner that is required or permitted under the terms of the Bond Resolution to be given to Bondholders; or (d) any other action taken by DTC, or its nominee, Cede & Co., as Bondholder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references in this Official Statement to the Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners, and Cede & Co. will be treated as the only holder of Bonds for all purposes under the Bond Resolution.

The Issuer may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the Bonds without the consent of Beneficial Owners or Bondholders.

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Exhibit 11.4

Attachment D

The Mountain States Covenant Compliance Certificates are considered confidential information and will be subsequently filed.

Exhibit 11.4

Attachment E

The Mountain States Officer's Certificates accompanying Independent Auditor's Reports are considered confidential information and will be subsequently filed.

Exhibit 11.4

Attachment F

Mountain States Audited Financial Statements for 2009 to 2014

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements
(and Supplemental Schedules)

Years Ended June 30, 2010 and 2009

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Schedules)

Years Ended June 30, 2010 and 2009

PYA
Pershing Yoakley & Associates
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mountain States Health Alliance:

We have audited the accompanying consolidated balance sheets of Mountain States Health Alliance and subsidiaries (the Alliance) as of June 30, 2010 and 2009 and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Alliance's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain States Health Alliance and subsidiaries as of June 30, 2010 and 2009 and the results of their operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules, as listed in the accompanying index, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Knoxville, Tennessee
October 25, 2010

Pershing Yoakley & Associates, P.C.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30, 2010		June 30, 2009
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	**$**	**234,526**	$ 239,836
Current portion of investments		**28,467**	27,317
Patient accounts receivable, less estimated allowances for uncollectible accounts of $45,941 in 2010 and $42,587 in 2009		**125,580**	128,812
Other receivables, net		**17,926**	16,108
Inventories and prepaid expenses		**29,163**	27,135
TOTAL CURRENT ASSETS		**435,662**	439,208
INVESTMENTS, less amounts required to meet current obligations		**586,756**	597,440
PROPERTY, PLANT AND EQUIPMENT, net		**695,598**	590,569
OTHER ASSETS			
Goodwill, net of accumulated amortization of $95,760 in 2010 and $84,687 in 2009		**151,352**	162,620
Net deferred financing, acquisition costs and other charges, less current portion		**30,819**	31,473
Other assets		**29,313**	34,765
TOTAL OTHER ASSETS		**211,484**	228,858
	$	**1,929,500**	$ 1,856,075

		June 30, 2010		2009
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accrued interest payable	$	**16,039**	$	12,050
Current portion of long-term debt and capital lease obligations		**28,131**		31,306
Current portion of estimated fair value of derivatives		**10,740**		10,921
Accounts payable and accrued expenses		**99,227**		94,712
Accrued salaries, compensated absences and amounts withheld		**47,280**		49,569
Estimated amounts due to third-party payors, net		**10,155**		6,398
TOTAL CURRENT LIABILITIES		**211,572**		204,956
OTHER LIABILITIES				
Long-term debt and capital lease obligations, less current portion		**1,054,842**		1,040,944
Estimated fair value of derivatives, less current portion		**123,560**		115,296
Deferred revenue		**20,445**		21,078
Estimated professional liability self-insurance		**9,541**		10,012
Other long-term liabilities		**12,628**		13,885
TOTAL LIABILITIES		**1,432,588**		1,406,171
MINORITY INTERESTS		**168,410**		165,500
COMMITMENTS AND CONTINGENCIES - Notes D, F, G, and N				
NET ASSETS				
Unrestricted net assets		**317,434**		272,049
Temporarily restricted net assets		**10,941**		12,178
Permanently restricted net assets		**127**		177
TOTAL NET ASSETS		**328,502**		284,404
	$	**1,929,500**	$	1,856,075

MOUNTAIN STATES HEALTH ALLIANCE

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

	Year Ended June 30, 2010	2009
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenue, gains and support:		
Net patient service revenue	$ **928,270**	$ 822,898
Other operating revenue	**16,009**	17,046
TOTAL REVENUE, GAINS AND SUPPORT	**944,279**	839,944
Expenses:		
Salaries and wages	**325,663**	296,073
Physician salaries and wages	**54,489**	38,240
Contract labor	**6,546**	16,899
Employee benefits	**68,362**	61,134
Fees	**82,542**	71,896
Supplies	**175,469**	156,418
Utilities	**16,193**	15,548
Other	**67,640**	57,974
Depreciation	**68,436**	56,373
Amortization	**13,123**	12,150
Estimated provision for bad debts	**7,961**	5,011
Interest and taxes	**42,264**	45,225
TOTAL EXPENSES	**928,688**	832,941
OPERATING INCOME	**15,591**	7,003
Nonoperating gains (losses):		
Interest and dividend income	**17,298**	19,105
Net realized gains (losses) on the sale of securities	**2,385**	(6,552)
Net unrealized gains (losses) on securities	**15,018**	(62,582)
Derivative related income	**4,394**	4,772
Loss on termination of derivatives - Note D	**-**	(2,785)
Loss on early extinguishment of debt - Note F	**(3,029)**	-
Change in estimated fair value of derivatives	**(8,607)**	(42,128)
Other nonoperating gains (losses)	**512**	(306)
Net assets released from restrictions used for operations	**1,113**	793
NET NONOPERATING GAINS (LOSSES)	**29,084**	(89,683)

	Year Ended June 30, 2010	Year Ended June 30, 2009
EXCESS (DEFICIT) OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES, BEFORE DISCONTINUED OPERATIONS AND MINORITY INTERESTS	**44,675**	(82,680)
Gain on sale of and deficit of revenue, gains and support over expenses and losses from discontinued operations	**-**	2,519
EXCESS (DEFICIT) OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES BEFORE MINORITY INTERESTS	**44,675**	(80,161)
Minority interest in consolidated subsidiaries' net (gain) loss	**(3,162)**	546
EXCESS (DEFICIT) OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	**41,513**	(79,615)
Other changes in unrestricted net assets:		
Pension and other defined benefit plan adjustments	**1,589**	(512)
Net assets released from restrictions used for the purchase of property, plant and equipment	**2,283**	3,095
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	**45,385**	(77,032)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Restricted grants and contributions	**2,159**	3,929
Net assets released from restrictions	**(3,396)**	(3,888)
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	**(1,237)**	41
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Net assets released from restrictions by donor	**(50)**	-
INCREASE (DECREASE) IN TOTAL NET ASSETS	**44,098**	(76,991)
NET ASSETS, BEGINNING OF YEAR	**284,404**	361,395
NET ASSETS, END OF YEAR	**$ 328,502**	$ 284,404

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ **44,098**	$ (76,991)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Provision for depreciation and amortization	**81,982**	68,967
Loss on early extinguishment of debt	**3,029**	-
Loss on termination of derivatives	**-**	3,245
Change in estimated fair value of derivatives	**8,607**	42,128
Equity in net income of joint ventures	**(1,117)**	(723)
Gain on sale of assets held for resale and disposal of assets	**(548)**	(568)
Amounts received on interest rate swap settlements	**(4,394)**	(4,772)
Minority interest in consolidated subsidiaries' net (gain) loss	**3,162**	(546)
Income recognized through forward sale agreements	**(864)**	(796)
Capital Appreciation Bond accretion and other	**2,071**	1,678
Restricted contributions	**(2,159)**	(3,929)
Pension and other defined benefit plan adjustments	**598**	512
Increase (decrease) in cash due to change in:		
Net patient accounts receivable	**3,232**	724
Other receivables, net	**(1,246)**	(4,107)
Inventories and prepaid expenses	**(4,640)**	1,843
Trading securities	**(13,368)**	183,450
Other assets	**(1,159)**	(4,144)
Accrued interest payable	**3,989**	1,900
Accounts payable and accrued expenses	**(855)**	8,551
Accrued salaries, compensated absences and amounts withheld	**(2,289)**	3,500
Estimated amounts due from/to third-party payors, net	**3,757**	6,492
Other long-term liabilities	**(201)**	(1,363)
Estimated professional liability self-insurance	**(471)**	(610)
Total adjustments	**77,116**	301,432
NET CASH PROVIDED BY OPERATING ACTIVITIES	**121,214**	224,441
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment, property held for resale and property held for expansion, net	**(172,240)**	(119,741)
Additions to goodwill	**-**	(16,097)
Net decrease (increase) in assets limited as to use	**50,362**	(28,152)
Purchases of held-to-maturity securities	**(28,175)**	-
Net sale or distribution from joint ventures and unconsolidated affiliates	**1,162**	384

	Year Ended June 30, 2010	2009
Proceeds from sale of property, plant and equipment and property held for resale	9,565	2,056
NET CASH USED IN INVESTING ACTIVITIES	(139,326)	(161,550)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital lease obligations, including deposits to escrow	(226,315)	(36,820)
Payment of acquisition and financing costs	(3,565)	(3,214)
Proceeds from issuance of long-term debt and other financing arrangements	235,158	135,780
Net amounts received on interest rate swap settlements	4,394	4,772
Restricted contributions received	3,382	5,767
Distribution to minority shareholders and other	(252)	(158)
NET CASH PROVIDED BY FINANCING ACTIVITIES	12,802	106,127
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,310)	169,018
CASH AND CASH EQUIVALENTS, beginning of year	239,836	70,818
CASH AND CASH EQUIVALENTS, end of year	$ 234,526	$ 239,836

SUPPLEMENTAL INFORMATION AND NON-CASH TRANSACTIONS:

	2010	2009
Cash paid for interest	$ 38,666	$ 45,218
Cash paid for federal and state income taxes	$ 446	$ 664
Construction related payables in accounts payable and accrued expenses	$ 14,847	$ 9,246
Increase in receivable from sale of property	$ 1,483	$ -
Decrease in land held for expansion related to property exchange transaction	$ 3,432	$ -

During the years ended June 30, 2010 and 2009, the Alliance refinanced previously issued debt of $184,050 and $9,445, respectively.

As discussed in Note A, the Alliance acquired a 50.1% interest in Johnston Memorial Hospital, Inc. (JMH) in fiscal year 2009. JMH is consolidated within the accompanying financial statements as of the acquisition date, April 1, 2009. The consolidated cash flows include JMH's cash flows since the acquisition date.

See notes to consolidated financial statements.

(Dollars in Thousands)

NOTE A--ORGANIZATION AND OPERATIONS

Mountain States Health Alliance (the Alliance) is a tax-exempt entity with operations primarily located in Washington, Sullivan, and Carter counties of Tennessee and Smyth, Wise, Dickenson, Russell and Washington counties of Virginia. The initial funds for the establishment of the Alliance in 1945 were provided by individuals and various institutions. Membership of the Alliance consists of individuals and institutions who have contributed at least $100 to the capital fund of the Alliance and are entitled to vote at the annual election of the Board of Directors.

The primary operations of the Alliance consist of eleven acute and specialty care hospitals, as follows:

- Johnson City Medical Center (JCMC) - licensed for 645 beds
- Indian Path Medical Center (IPMC) - licensed for 322 beds
- Smyth County Community Hospital (SCCH) - licensed for 279 beds
- Johnston Memorial Hospital (JMH) - licensed for 135 beds
- Norton Community Hospital (NCH) - licensed for 129 beds
- Sycamore Shoals Hospital (SSH) - licensed for 121 beds
- North Side Hospital (NSH) - licensed for 91 beds
- Russell County Medical Center (RCMC) - licensed for 78 beds
- Johnson City Specialty Hospital (JCSH) - licensed for 23 beds
- Dickenson Community Hospital (DCH) - licensed for 25 beds
- Johnson County Community Hospital (JCCH) - licensed for 2 beds

Effective April 1, 2009, the Alliance acquired an interest in Johnston Memorial Hospital, Inc. (JMH), a 135 bed general acute care hospital located in Abingdon, Virginia. JMH is also the sole member of Abingdon Physician Partners (APP), a non-taxable corporation that owns and manages physician practices. The Alliance acquired a 50.1% interest in JMH by providing $132,000 to JMH (designated for capital). Johnston Memorial Healthcare Foundation, Inc. (JMHF), a hospital supporting organization, retained a 49.9% interest in JMH. The assets and liabilities of JMH at April 1, 2009 have been consolidated by the Alliance at their carrying value as of that date. The following is condensed, unaudited financial information related to JMH as of March 31, 2009:

Current Assets	$	23,516
Other Assets		139,576
Total	$	163,092
Liabilities	$	47,440
Net Assets (initial membership interest of JMHF)		115,652
	$	163,092

NOTE A--ORGANIZATION AND OPERATIONS - Continued

The activities and accounts of JMH since April 1, 2009 are included in the accompanying consolidated financial statements.

The Alliance has a 50.1% interest in NCH. NCH is also the sole member or shareholder of DCH and Norton Community Physician Services, LLC (NCPS), a taxable corporation that consists of physician practices and a pharmacy and; Community Home Care (CHC), a taxable corporation that provides home medical equipment. The activities and accounts of NCH are included in the accompanying consolidated financial statements.

The Alliance also has an 80% interest in SCCH. SCCH is the sole shareholder of Southwest Community Health Services, Inc. (SWCH), a taxable entity that operates a pharmacy and provides other health services. The activities and accounts of SCCH are included in the accompanying consolidated financial statements.

The Alliance is the sole shareholder of Blue Ridge Medical Management Corporation (BRMM), a for-profit entity that owns and manages physician practices and provides other healthcare services to patients in Tennessee and Virginia. BRMM also operates as a medical office real estate developer by owning, selling and leasing real estate to physician practices and other entities. BRMM is either the sole shareholder, a significant shareholder, or member of the following organizations:

Blue Ridge Physician Group, Inc. (BRPG): A company that contracts with physicians to provide services to BRMM physician practices.

Mountain States Properties, Inc. (MSPI): An entity that owns and manages certain real estate (primarily medical office buildings) and provides rehabilitation and fitness services. In addition, MSPI is a counter-party to various financing transactions, including interest rate swaps.

Mediserve Medical Equipment of Kingsport, Inc. (Mediserve): A company that provides durable medical equipment services.

Kingsport Ambulatory Surgery Center (KASC) (d.b.a. Kingsport Day Surgery): A joint venture operating as an outpatient surgery center which performs procedures primarily in otolaryngology, orthopedics, ophthalmology, and general surgery. BRMM has a 43% ownership of KASC at June 30, 2010 and 2009; however, BRMM maintains control over KASC. As such, the accounts and activities of KASC are included in the accompanying consolidated financial statements.

NOTE A--ORGANIZATION AND OPERATIONS - Continued

Piney Flats Urgent Care (PFUC): A for-profit entity that provides urgent care patient services.

The Alliance is the primary beneficiary of the activities of Mountain States Foundation, Inc. (MSF), a not-for-profit foundation formed to coordinate fundraising and development activities of the Alliance. The Alliance is also the beneficiary of Mountain States Health Alliance Auxiliary (Auxiliary), a not-for-profit organization formed to coordinate volunteer activities of the Alliance. The activities and accounts of MSF and the Auxiliary are included in the accompanying consolidated financial statements.

Prior to 2010, the Alliance was a majority shareholder of PHP of Tri-Cities, LLC (PHPT). PHPT's primary purpose was to hold an equity interest in another organization engaged in and related to the financing and/or delivery of healthcare services. During 2009, PHPT's equity interest in this other entity was reacquired by that entity (PHP Companies, Inc. (PHP)). PHPT sold the interest to PHP for a net gain of $2,519. The activities of PHPT and gain on sale are included in the accompanying 2009 consolidated financial statements as "discontinued operations". During 2009, PHPT was reorganized under the business name of Integrated Solutions Health Network, LLC (ISHN). Concurrent with the reorganization, the Alliance purchased the remaining ownership interest of Health Alliance PHO, Inc. (PHO), an entity in which the Alliance previously held a minority interest. The net assets of the PHO were merged into ISHN on June 30, 2009. The primary function of ISHN is to establish, operate and administer a provider-sponsored health care delivery network.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Alliance and its subsidiaries after elimination of all significant intercompany accounts and transactions. The Alliance classifies those activities directly associated with its mission of providing healthcare services, as well as other activities deemed significant to its operations, as operating activities.

A minority interest is recorded to recognize the ownership or membership interests of third parties with respect to JMH, NCH, SCCH, KASC, PFUC and ISHN.

In 2011, the Alliance will adopt recently issued accounting standards, which change the accounting for, and the financial statement presentation of, noncontrolling interests in a subsidiary within consolidated financial statements. This new standard requires that a noncontrolling interest in the equity of a subsidiary be accounted for and reported as equity, provides revised guidance on the treatment of net income and losses attributable to the noncontrolling interest and changes in ownership interests in a subsidiary and requires additional disclosures that identify and distinguish between the interests of the controlling and noncontrolling owners. Management of the

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Alliance is currently assessing the potential impact of the adoption of this new guidance on the consolidated financial statements.

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Accounting Standards Codification: In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (GAAP) - a Replacement of FASB Statement No. 162.* This Statement modifies the GAAP hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative literature. Effective September 2009, the FASB Accounting Standards Codification (ASC), also known collectively as the "Codification," is considered the single source of authoritative U.S. accounting and reporting standards. FASB ASC 105-10, Generally Accepted Accounting Principles, became applicable during fiscal year 2010. All accounting references have been updated, and therefore SFAS references have been replaced with ASC references. The adoption of the ASC did not have an impact on the consolidated financial statements.

Cash and Cash Equivalents: Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents designated as assets limited as to use or uninvested amounts included in investment portfolios are not included as cash and cash equivalents on the Consolidated Balance Sheets.

Investments: Investments as reported in the Consolidated Balance Sheets includes trading securities, held-to-maturity securities and assets limited as to use (Note C). FASB ASC 958-320, ***Investments – Debt and Equity Securities***, allows not-for-profit organizations to report in a manner similar to business entities by identifying securities as available-for-sale or held-to-maturity and to exclude the unrealized gains and losses on those securities from the Performance Indicator (as defined below). Investments which the Alliance has the positive intent and ability to hold to maturity are considered as held-to-maturity. Substantially all other investments (including assets limited as to use) are considered as trading securities. Management annually evaluates the held-to-maturity investment portfolio and recognizes any "other-than-temporary" losses as deductions from the Performance Indicator. Management's evaluation considers the amount of decline in fair value, as well as the time period of any such decline. Management does not believe any investment classified as held-to-maturity is other-than-temporarily impaired at June 30, 2010.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Within the trading securities portfolio, all debt securities and marketable equity securities with readily determinable fair values are reported at fair value based on quoted market prices. Investments without readily determinable fair values are reported at fair market value pursuant to FASB ASC 825, *Financial Instruments*. Guaranteed investment contracts are reported at contract value.

Realized gains and losses on trading securities and assets limited as to use are computed using the specific identification method for cost determination. Interest and dividend income is reported net of related investment fees.

Investments in joint ventures are reported under the equity method of accounting, which approximates the Alliance's equity in the underlying net book value, unless the ownership structure requires consolidation. Other assets include investments in joint ventures of $2,418 and $2,463 at June 30, 2010 and 2009, respectively.

Inventories: Inventories, consisting primarily of medical supplies, are stated at the lower of cost or market.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost, or if donated, at the fair value at the date of gift. Generally, depreciation is computed by the straight-line method over the estimated useful life of the asset. Equipment held under capital lease obligations is amortized under the straight-line method over the shorter of the lease term or estimated useful life. Amortization of equipment held under capital lease is shown as a part of depreciation expense and accumulated depreciation in the accompanying consolidated financial statements.

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The amount capitalized is net of investment earnings on assets limited as to use derived from borrowings designated for capital assets. Renewals and betterments are capitalized and depreciated over their useful life, whereas costs of maintenance and repairs are expensed as incurred.

The Alliance reviews capital assets for indications of potential impairment when there are changes in circumstances related to a specific asset. If this review indicates that the carrying value of these assets may not be recoverable, the Alliance estimates future cash flows from operations and the eventual disposition of such assets. If the sum of these undiscounted future cash flows is less than the carrying amount of the asset, a write-down to estimated fair value is recorded. The Alliance did not recognize any impairment losses during 2010 and 2009.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Property held for resale and property held for expansion primarily represent land contributed to, or purchased by, the Alliance plus costs incurred to develop the infrastructure of such land. Other assets include property held for resale and property held for expansion of $9,135 and $12,542, respectively, at June 30, 2010 and 2009. Management annually evaluates its investment and records non-temporary declines in value when it is determined the ultimate net realizable value is less than the recorded amount. No such declines were identified in 2010 and 2009.

Goodwill: Goodwill represents the difference between the acquisition cost of assets and the estimated fair value of net tangible and any separately identified intangible assets. The Alliance amortizes goodwill associated with its not-for-profit subsidiaries under the straight-line method over various estimated useful lives. For goodwill acquired by its for-profit subsidiaries, the Alliance does not amortize the goodwill and annually performs impairment testing in accordance with FASB ASC 350, *Intangibles – Goodwill and Other*. At June 30, 2010, management does not believe any goodwill so tested to be impaired.

FASB ASC 350, *Intangibles - Goodwill and Other,* will require, among other things, that goodwill associated with not-for-profit entities be evaluated annually for impairment, including a transitional impairment test upon adoption, and that such goodwill no longer be amortized. The Alliance will be required to adopt this standard in 2011 and will perform such transitional testing as of July 1, 2010 prior to December 31, 2010. While the Alliance is evaluating the potential impact of the adoption of this standard, including the transitional impairment testing, it is currently not possible to determine the effects, if any, the adoption of this standard will have on the consolidated financial statements.

Deferred Financing, Acquisition Costs and Other Charges: Deferred financing costs are amortized over the life of the respective bond issue principally using the average bonds outstanding method. Other intangible assets include licenses and similar assets and are being amortized over the intangible's estimated useful life under the straight-line method.

Prior to 2009, the Alliance routinely financed interest rate swap and other derivative transaction issuance costs through modification of future settlement terms. As such, the unamortized issuance costs of these derivatives are included as deferred financing costs in the accompanying Consolidated Balance Sheets and are being amortized over the term of the respective derivative instrument. The unpaid issuance costs are included as a part of the estimated fair value of derivatives in the accompanying Consolidated Balance Sheets. Beginning in 2009, interest rate swap and derivative transaction issuance costs are expensed as incurred, in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures* (FASB ASC 820). No such costs were incurred in 2010 and 2009.

Derivative Financial Instruments: As further described in Note D, the Alliance is a party to interest rate swap and other derivative agreements. These financial instruments are not designated as hedges

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

and have been presented at estimated fair market value in the accompanying Consolidated Balance Sheets. These fair values are based on the estimated amount the Alliance would receive, or be required to pay, to enter into equivalent agreements at the valuation date. Due to the nature of these financial instruments, such estimates are subject to significant change in the near term.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Self-insurance liabilities include estimated reserves for reported and unreported professional liability claims (Note G) and are recorded at the estimated net present value of such claims. Other long-term liabilities include contributions payable and obligations under deferred compensation arrangements, a defined benefit pension plan, a post-retirement employee benefit plan as well as other liabilities which management estimates are not payable within one year.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts, 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 Alliance's revenue recognition policies related to self-pay and other types of payors emphasize revenue recognition only when collections are reasonably assured.

Patient accounts receivable are reported net of both an estimated allowance for uncollectible accounts and an estimated allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare and other third-party payment programs. Current operations include a provision for bad debts in the Consolidated Statements of Operations and Changes in Net Assets estimated based upon the age of the patient accounts receivable, prior experience and any unusual circumstances (such as local, regional or national economic conditions) which affect the collectibility of receivables, including management's assumptions about conditions it expects to exist and courses of action it expects to take.

The Alliance's policy does not require collateral or other security for patient accounts receivable. The Alliance routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Charity Care: The Alliance accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Alliance and various guidelines outlined by the Federal Government. These policies define charity as those services for

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

which no payment is anticipated and, as such, charges at established rates are not included in net patient service revenue.

In addition to the charity care services described above, the Alliance provides a number of other services to benefit the poor for which little or no payment is received. Medicare, TennCare and State indigent programs do not cover the full cost of providing care to beneficiaries of those programs. The Alliance also provides services to the community at large for which it receives little or no payment.

Excess (Deficit) of Revenue, Gains and Support Over Expenses and Losses: The Consolidated Statements of Operations and Changes in Net Assets includes the caption *Excess (Deficit) of Revenue, Gains and Support Over Expenses and Losses* (the Performance Indicator). Changes in unrestricted net assets which are excluded from the Performance Indicator, consistent with industry practice, include transfers of assets to and from affiliates and contributions of long-lived assets or amounts restricted to the purchase of long-lived assets, as well as pension and related adjustments.

Income Taxes: The Alliance is classified as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been made in the accompanying consolidated financial statements for the Alliance and its tax-exempt subsidiaries. Taxable entities account for income taxes in accordance with FASB ASC 740, *Income Taxes* (Note L). The Alliance has no significant uncertain tax positions at June 30, 2010 and 2009.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor or time restriction expires; that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Statements of Operations and Changes in Net Assets as net assets released from restrictions. Permanently restricted net assets have been restricted by donors to be maintained by the Alliance in perpetuity.

Fair Value Measurement: In 2009, the Hospital adopted FASB ASC 820, *Fair Value Measurements and Disclosures,* which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. There was no significant impact on the consolidated financial statements as a result of adopting this standard (Note Q).

(Dollars in Thousands)

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 requires new disclosures regarding significant transfers in and out of Levels 1 and 2, as well as information about activity in Level 3 fair value measurements, including presenting information about purchases, sales, issuances and settlements on a gross versus a net basis in the Level 3 activity roll forward. In addition, ASU 2010-06 clarifies existing disclosures regarding input and valuation techniques, as well as the level of disaggregation for each class of assets and liabilities. The Alliance will adopt ASU 2010-06 in 2011, except for the disclosures related to purchases, sales, issuance and settlements, which will be effective for the Alliance beginning July 1, 2012. The adoption of ASU 2010-06 is not expected to have an impact on the Alliance's consolidated financial statements.

Subsequent Events: The Alliance evaluated all events or transactions that occurred after June 30, 2010, through October 25, 2010, the issuance date of the consolidated financial statements. During this period management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2010 consolidated financial statements, other than as discussed in Note D and in Note F.

Reclassifications: Certain 2009 amounts have been reclassified to conform with the 2010 presentation in the accompanying consolidated financial statements.

NOTE C--INVESTMENTS

Assets limited as to use are summarized by designation or restriction as follows at June 30:

	2010	***2009***
Designated or restricted:		
Under safekeeping agreements	$ 52,050	$ 40,604
Under guarantee agreements	89,486	86,364
By Board for capital improvements	2,776	-
Under bond indenture agreements:		
For debt service and interest payments	78,612	60,828
For capital acquisitions	76,241	161,731
	299,165	349,527
Less: amount required to meet current obligations	(25,092)	(22,492)
	$ 274,073	$ 327,035

(Dollars in Thousands)

NOTE C--INVESTMENTS- Continued

Assets limited as to use consist of the following at June 30:

	2010	2009
Cash, cash equivalents and money market funds	$ 170,897	$ 173,859
U.S. Government securities	1,795	1,795
U.S. Agency securities	12,319	18,827
Guaranteed investment contracts	114,154	155,046
	$ 299,165	$ 349,527

Trading securities consist of the following at June 30:

	2010	2009
Cash, cash equivalents and money market funds	$ 4,799	$ 14,622
U.S. Government securities	3,137	-
U.S. Agency securities	13,760	16,013
Corporate and foreign bonds	15,063	10,014
Municipal obligations	1,461	3,101
U.S. equity securities	142,816	161,284
Other	28,608	30,031
	209,644	235,065
Less: amount classified as current	(3,375)	(4,825)
	$ 206,269	$ 230,240

Held-to-Maturity securities consist of the following at June 30:

	2010	2009
Cash, cash equivalents and money market funds	$ 1,131	$ 452
Corporate and foreign bonds	103,968	39,504
Municipal obligations	1,315	209
	$ 106,414	$ 40,165

Held-to-maturity securities had gross unrealized gains and losses of $5,525 and $607, respectively, at June 30, 2010 and $831 and $110, respectively at June 30, 2009. At June 30, 2010, the Alliance held one security within the held-to-maturity portfolio with a fair value and unrealized loss of $591

NOTE C--INVESTMENTS- Continued

and $166, respectively, which had been at an unrealized loss position for over one year. At June 30, 2009, no securities held in the held-to-maturity portfolio had been in an unrealized loss position for over one year. At June 30, 2010, the contractual maturities of held-to-maturity securities were $13,389 due in one year or less, $48,447 due from one to five years and $44,578 due after five years. At June 30, 2009, the contractual maturities of held-to-maturity securities were $733 due in one year or less, $21,190 due from one to five years and $18,242 due after five years.

At June 30, 2010 and 2009, the Alliance held investments in certain limited partnerships and hedge funds of $28,608 and $30,031, respectively, that have a wide range of investment strategies with various levels of risk. These funds are included within trading securities and do not have readily determinable fair values. The funds are reported at fair market value pursuant to FASB ASC 825, *Financial Instruments.*

The Alliance has investments in several joint ventures and corporations which are accounted for under the equity method of accounting.

As a part of the acquisition of membership interests in JMH, SCCH and NCH, the Alliance has committed to invest $132,000, $48,100, and $45,000, respectively. Cumulative amounts expended at June 30, 2010 under these commitments are approximately $73,600.

NOTE D--DERIVATIVE TRANSACTIONS

The Alliance is a party to a number of derivative transactions. These derivatives have not been designated as hedges and, as such, are valued at estimated fair value in the accompanying Consolidated Balance Sheets. Management's primary objective in holding such derivatives is to introduce a variable rate component into its fixed rate debt structure. Under the terms of these agreements, changes in the interest rate environment could have a significant effect on the Alliance.

These derivative agreements require that the Alliance post additional collateral for the derivatives' fair market value deficits above specified levels. Such investments are included as assets limited as to use. As of June 30, 2010, management believes the Alliance was fully collateralized with respect to the derivative agreements and management does not believe such collateral is exposed to third-party credit risk. Further, certain of the agreements contain requirements regarding maintenance of financial and liquidity ratios. Management has represented the Alliance is in compliance with all such covenants at June 30, 2010.

Interest Rate Swaps: The Alliance is a party to six interest rate swap agreements with Merrill Lynch as the counterparty. A liability, representing the estimated fair value of these swaps, of $33,910 and $37,274 was recognized by the Alliance as of June 30, 2010 and 2009, respectively.

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS - Continued

The following is a summary of five of these interest rate swap agreements at June 30, 2010:

Swap	Notional Amount	Term	Payments by: Counterparty	Payments by: Alliance
A	$ 170,000	4/2008-4/2026	0.51% through April 2011, then 71.10% of USD-ISDA Swap Rate	0.00% through April 2011, then USD-SIFMA Municipal Swap Index
B	95,000	4/2008-4/2026	0.52% through April 2011, then 71.18% of USD-ISDA Swap Rate	0.00% through April 2011, then USD-SIFMA Municipal Swap Index
C	173,030	4/2008-4/2034	0.53% through April 2011, then 72.35% of USD-ISDA Swap Rate	0.00% through April 2011, then USD-SIFMA Municipal Swap Index
D	82,055	12/2007-7/2033	USD-LIBOR-BBA through June 2012, then 67.00% USD-LIBOR-BBA	4.411% through June 2012, then 3.805%
E	50,000	2/2008-7/2038	67.00% of USD-LIBOR-BBA less 0.07%	3.41%

Deferred financing and acquisition costs, net of amortization, include \$6,823 and \$7,167 at June 30, 2010 and 2009, respectively, related to these swaps.

In addition to the swaps described above, the Alliance and Merrill Lynch are also parties to a total return swap in the notional amount of \$23,900. No deferred financing and acquisition costs were recorded as a result of this transaction. The agreement consists of the following:

- An agreement that requires the Alliance to pay a variable rate of USD-SIFMA Municipal Swap Index through July 1, 2012 (or termination of the swap) on a notional amount equal to the outstanding 2001A Hospital Revenue and Improvement Bonds (the 2001A Reference Bonds). The Alliance receives a fixed rate of 6.25% on the outstanding 2001A Reference Bonds.

- A "total return provision" under which the Alliance will pay (or receive) an amount equal to the product of the outstanding 2001A Reference Bonds multiplied by the difference between the outstanding 2001A Reference Bonds and the 2001A Reference Bonds' market price at termination, as defined in the agreement. In the event the swap does not terminate prior to July 1, 2012, there would be no settlement of this component as there would be no outstanding 2001A Reference Bonds.

NOTE D--DERIVATIVE TRANSACTIONS - Continued

During 2009, the Alliance terminated an interest rate swap with a notional amount of $318,315 to which Merrill Lynch was the counterparty. As a result of the termination, the Alliance wrote-off deferred financing and issuance costs of $3,220 and recognized a gain on termination of $3,054, which are included in loss on termination of derivatives in the accompanying 2009 Consolidated Statement of Operations and Changes in Net Assets.

The Alliance is party to a total return swap with Lehman Brothers as the counterparty. Lehman Brothers filed for bankruptcy in September 2008. The Alliance subsequently received notification from Lehman Brothers Special Financing, Inc. indicating the intent of the counterparty to terminate this agreement effective January 1, 2009. As of October 25, 2010, the Alliance and Lehman Brothers Special Financing, Inc. have been unable to reach a settlement agreement. In September 2010, the Alliance was issued a subpoena to furnish certain documentation related to the transaction. A protocol has been put into place by the bankruptcy court whereby the parties are to undergo alternate dispute resolution. If a settlement is not reached through the alternate dispute resolution process, the matter will be subject to non-binding arbitration. Legal counsel has advised management that the court ordered process may take several years.

The fair value of these swaps is undeterminable at January 1, 2009, as prior to the termination date Lehman Brothers liquidated the underlying referenced securities, making a valuation not commercially viable. An estimated liability of $10,740 and $10,921 was recognized by the Alliance as of June 30, 2010 and 2009, respectively. Management believes that the liability as recorded at June 30, 2010 is sufficient to cover any exposure arising from litigation in this matter. However, it is reasonably possible management's estimate may change in the near term, although the amount of any change cannot be estimated. Due to the termination of this agreement, the estimated liability is included as a current liability in the accompanying Consolidated Balance Sheets.

A third party holds collateral with a fair market value of approximately $13,570 and $13,252, respectively, at June 30, 2010 and 2009, with respect to these derivative agreements. Such collateral is included as current assets limited as to use. Additionally, during 2009 the Alliance wrote-off deferred financing and issuance costs related to these swaps of $2,619 which is included in loss on termination of derivatives in the accompanying 2009 Consolidated Statement of Operations and Changes in Net Assets.

The arrangement consists of nine agreements each with three separate components (described below) with notional values of $23,600, $8,000, and $8,750 each. The swaps generally consist of the following:

NOTE D--DERIVATIVE TRANSACTIONS - Continued

- An arrangement that calls for the Alliance to pay a variable rate (SIFMA Municipal Swap Index) plus certain fixed payment amounts and receive a payment equal to the interest paid by the Alliance on a portion of its early extinguished, but still outstanding, 2000A and 2000B Hospital Mortgage Revenue Refunding Bonds (the Reference Bonds) (whose fixed rates range from 7.50% to 7.75%).

- An arrangement that requires the Alliance to pay a fixed rate of 4.211% through either July 1, 2025, 2029 or 2033 (or termination of the swap) on the outstanding Reference Bonds and receive a variable rate of 67% of USD-LIBOR-BBA on the outstanding Reference Bonds; and

- A "total return provision" under which the Alliance will pay (or receive) the difference between the outstanding Reference Bonds, multiplied by 132%, less the fair value of the Reference Bonds on the date of termination and any fixed interest payments made under the arrangements described above. In the event the swaps do not terminate prior to their stated termination dates (2025, 2029 or 2033), there would be no settlement of this component as there would be no outstanding Reference Bonds.

The swap also contains an agreement that consists of two separate components:

- An arrangement that requires the Alliance to pay a fixed rate of 2.98% through July 1, 2016 (or termination of the swap) on the outstanding, but previously defeased, 1991 Hospital Revenue and Improvement Bonds (the 1991 Reference Bonds) and receive a variable rate of 67% of USD-LIBOR-BBA on the outstanding 1991 Reference Bonds; and

- A "fixed payor provision" under which the Alliance will pay (or receive) the difference between the outstanding 1991 Reference Bonds multiplied by 100% and any fixed interest payments made as required under the agreement minus the outstanding 1991 Reference Bonds multiplied by the average market price at termination. In the event the swaps do not terminate prior to their stated termination date (2016), there would be no settlement of this component as there would be no outstanding 1991 Reference Bonds.

Interest Rate Swap Option: In June 2004, the Alliance entered into an agreement with Bear Stearns (acquired by JP Morgan) whereby Bear Stearns has purchased from the Alliance an option to enter into an interest rate swap agreement (swaption) with the Alliance on July 1, 2011, which is an optional redemption date related to the Alliance's early extinguished 2000A and 2000B Bonds (Note F). The purpose of this agreement was to effectively sell the call features related to the early extinguished Series 2000A and 2000B Bonds. As consideration under this agreement, the Alliance

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS - Continued

received a total of $42,500 in upfront payments as the swaption premium. Such amounts were initially recorded as estimated fair value of derivatives in the Consolidated Balance Sheets. Beginning 30 calendar days prior to July 1, 2011 and terminating 30 calendar days prior to July 1, 2015, the counterparty has the periodic right to exercise the swaption.

The underlying interest rate swap transactions to which the swaption transaction relates have the following terms:

			Payments by:	
Swap	*Notional Amount*	*Term*	*Counterparty*	*Alliance*
2000A	Ranging from $148,170 through July 1, 2018 to $23,000 through July 2033	30 days following the exercise date through July 2033	64% of USD-LIBOR-BBA	Fixed amounts ranging from 7.13% upon execution to 7.50% through July 2033, based on notional amount
2000B	Ranging from $76,240 through July 1, 2021 to $8,800 through July 2033	30 days following the exercise date through July 2033	64% of USD-LIBOR-BBA	Fixed amounts ranging from 7.54% upon execution to 8.00% through July 2033, based on notional amount

Management anticipates the swaption will be settled by a payment of cash and not by the execution of an actual interest rate swap transaction, should the counterparty not elect to terminate.

The Alliance retains the right to terminate the swaption at any time prior to May 17, 2011 at its fair market value. A liability of $89,650 and $78,022, representing the estimated fair value of the swaption at June 30, 2010 and 2009, respectively, is included in estimated fair value of derivatives in the accompanying Consolidated Balance Sheets. As a derivative financial instrument, this swaption is extremely sensitive to changes in long-term interest rates and other elements in the financial marketplace. As such, estimates of fair value are subject to significant changes in the near term.

Deferred financing and acquisition costs include $434 and $868 at June 30, 2010 and 2009, respectively, related to the costs of this transaction. The change in estimated fair value of derivatives in the accompanying Statement of Operations and Changes in Net Assets for 2010 and 2009 includes an unrealized loss of $11,628 and $9,195, respectively, related to this derivative.

Forward Sale Agreements: In June 2004, the Alliance entered into two related forward sale agreements with the counterparty to the swaption agreements and the Master Trustee of the Series 2000 Bonds. The forward sale agreements originally related to the Debt Service Reserve Fund and to the Debt Service Fund, respectively, (collectively, the "Funds"), as established under provisions

NOTE D--DERIVATIVE TRANSACTIONS - Continued

of the Master Trust Indenture related to the issuance of the Series 2000 Bonds. In consideration of the future earnings on the Funds, the counterparty paid the Master Trustee a total of $30,000 during 2005, to be held on behalf of the Alliance. In June 2006, one of these agreements was amended to also relate to the Series 2000C, 2000D, 2006A and 2006B Bonds, and to remove the Series 2000A Bonds from consideration under the agreement. As the original intent of these Funds was to secure debt service payments under the above referenced Bonds, the agreement requires these funds to be held under a guaranty agreement as further described below.

In connection with the issuance of the Series 2007 Bonds and the derecognition of a portion of the Series 2000A Bonds, all of the outstanding Series 2000B Bonds, and all of the outstanding 2006B Bonds (Note F), one of these agreements as it relates to the Series 2000A and 2000B Bonds was partially terminated. As such, during 2008 the Alliance reduced its liability with respect to the portion related to the Series 2000A and 2000B Bonds, and paid the counterparty $6,186 under the terms of the agreement. Management has represented that the other agreement will be amended in fiscal year 2011 to include the Series 2010A Bonds and to remove the Series 2000B and 2006B Bonds. As such, the Alliance has not reduced its liability for the portion related to the Series 2000B or 2006B Bonds under this agreement.

A liability of $19,864 and $20,728 representing the unamortized payments from the counterparty is included as part of deferred revenue in the accompanying Consolidated Balance Sheets as of June 30, 2010 and 2009, respectively. Amounts are being recognized as investment income over the life of the agreements.

Pursuant to these agreements, the counterparty required that the Alliance's obligations under the swaption and forward sale agreements be collateralized under a guarantee agreement in favor of the counterparty. Due to various requirements of the Master Trust Indenture, the Alliance transferred to MSF a total of $42,500 that was in turn deposited with the counterparty as collateral in a Guaranteed Investment Contract (GIC). Amounts received under the forward sale agreements were also deposited into the GIC. All GIC deposits earn interest compounded at 4.14% for the first year, and at 3.5% thereafter through July 1, 2011. The GIC deposits as of June 30, 2010 and 2009 totaled $89,486 and $86,364, respectively.

In the event the counterparty does not exercise the swaption, the Alliance will realize the swaption premium, forward sale amounts, and earnings on the GIC when the swaption expires on July 1, 2015. In the event the Alliance settles with the counterparty, the Alliance would in effect lose the earnings on these funds.

(Dollars in Thousands)

NOTE E--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30:

	2010	*2009*
Land	$ 60,351	$ 51,484
Buildings and leasehold improvements	404,790	407,063
Property and improvements held for leasing	84,421	96,457
Equipment	479,523	424,738
Equipment held under capital lease	22,679	25,032
	1,051,764	1,004,774
Less: Allowances for depreciation and amortization	(569,913)	(505,600)
	481,851	499,174
Construction in progress (Note N)	213,747	91,395
	$ 695,598	$ 590,569

Accumulated depreciation and amortization on property and improvements held for leasing purposes is $21,543 and $21,829 at June 30, 2010 and 2009, respectively. Net interest capitalized was $11,117 and $3,744 for the years ended June 30, 2010 and 2009, respectively.

The Alliance is constructing two new hospital facilities, including Franklin Woods Community Hospital (FWCH) in Washington County, Tennessee and a replacement facility for JMH and has plans to construct a replacement facility at SCCH which will commence in 2011. The Alliance is also performing various renovations on existing hospital facilities. These projects may have a significant impact on the remaining useful life of the existing hospital facilities. Where commitments to construct new facilities have been finalized, management has adjusted the estimated useful lives of existing hospital facilities.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt and capital lease obligations consist of the following at June 30:

Description	*Maturities*	*Rates*	*Outstanding Balance*	
			2010	*2009*
2010A Hospital Refunding Revenue Bonds, net of unamortized premium of $1,096 at June 30, 2010	$38,660 uninsured serially, through 2020	3.00% to 5.00%	$ 169,176	$ -
	$14,985 uninsured term bonds, due July 1, 2025	5.38%		
	$19,385 uninsured term bonds, due July 1, 2030	5.63%		
	$39,570 uninsured term bonds, due July 1, 2038	6.50%		
	$55,480 uninsured term bonds, due July 1, 2038	6.00%		
2010B Hospital Refunding Revenue Bonds, net of unamortized premium of $753 at June 30, 2010	$27,330 uninsured serially, through 2020	2.50% to 5.00%	36,688	-
	$4,355 uninsured term bonds, due July 1, 2023	5.00%		
	$4,250 uninsured term bonds, due July 1, 2028	5.50%		

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Description	Maturities	Rates	Outstanding Balance 2010	Outstanding Balance 2009
2009A Hospital Revenue Bonds, net of unamortized discount of $126 and $129 at June 30, 2010 and 2009, respectively	$725 uninsured term bonds, due July 1, 2019 $1,730 uninsured term bonds, due July 1, 2029 $3,105 uninsured term bonds, due July 1, 2038	7.25% 7.50% 7.75%	5,434	5,431
2009B Hospital Revenue Bonds	$5,535 uninsured term bonds, due July 1, 2038	8.00%	5,535	5,535
2009C Hospital Revenue Bonds, net of unamortized discount of $2,508 and $2,595 at June 30, 2010 and 2009, respectively	$21,100 uninsured term bonds, due July 1, 2019 $20,000 uninsured term bonds, due July 1, 2029 $74,855 uninsured term bonds, due July 1, 2038	7.25% 7.50% 7.75%	113,447	113,360
2008A Hospital Revenue Bonds	$13,245 uninsured term bonds, due July 1, 2038, subject to early redemption or tender	Variable, 0.91% at June 30, 2010	13,245	72,770
2008B Hospital Revenue Bonds	$54,050 uninsured term bonds, due July 1, 2038, subject to early redemption or tender	Variable, 0.91% at June 30, 2010	54,050	54,230
2007A Hospital Revenue Bonds	$4,305 uninsured term bonds, due July 1, 2038, subject to early redemption or tender	Variable, 0.91% at June 30, 2010	4,305	100,220
2007B Taxable Hospital Revenue Bonds	$314,190 uninsured term bonds, due July 1, 2033, subject to early redemption or tender	Variable, 2.42% at June 30, 2010	314,190	320,170
2007C Hospital Revenue Bonds	$1,900 uninsured term bonds, due July 1, 2032, subject to early redemption or tender	Variable, 0.91% at June 30, 2010	1,900	36,575
2006A Hospital First Mortgage Revenue Bonds, net of unamortized premium of $153 and $159 at June 30, 2010 and 2009, respectively	$7,265 uninsured serially, through 2019 $7,375 uninsured term bonds, due July 1, 2026 $20,505 uninsured term bonds, due July 1, 2031 $135,175 uninsured term bonds, due July 1, 2036	4.50% to 5.00% 5.25% 5.50% 5.50%	170,473	171,149
2001A Hospital First Mortgage Revenue Bonds	$23,900 term bonds, due July 1, 2026, subject to early redemption or tender	6.85%	23,900	24,600
2001 Hospital Refunding and Improvement Revenue Bonds (NCH), net of unamortized discount of $43 and $38 at June 30, 2010 and 2009, respectively	$675 insured term bonds, due December 1, 2010 $1,465 insured term bonds, due December 1, 2012 $1,635 insured term bonds, due December 1, 2014 $8,815 insured term bonds, due December 1, 2022	5.13% 5.75% 6.00% 6.00%	12,547	13,183
2000A Hospital First Mortgage Revenue Refunding Bonds	$28,417 insured Capital Appreciation Bonds, interest and principal due July 1, 2026 through 2030	6.63%	28,417	26,601
2000C Hospital First Mortgage Revenue Taxable Bonds	$35,335 insured term bonds, due July 1, 2026	8.50%	35,335	36,270
2000D First Mortgage Taxable Bonds	$15,225 insured term bonds, due July 1, 2026	8.50%	15,225	15,630
1998 Hospital Refunding and Improvement Revenue Bonds (JMH)	$1,125 uninsured serially, through 2011 $6,495 uninsured term bonds, due July 1, 2016 $7,620 uninsured term bonds, due July 1, 2028	5.00% 5.25% 5.38%	15,240	16,310
Capitalized lease obligations secured by buildings and equipment	Maturing through 2027	3.18% to 13.01%	16,715	17,211
Note payable secured by assets of Kingsport Ambulatory Surgery Center	Monthly principal and interest payments maturing through June 2010	5.50%	-	334
Note payable secured by property	Monthly principal and interest payments of $7 beginning March 2007 maturing February 2012. Note was paid-off in 2010	LIBOR + 1.25%	-	204
$7,500 promissory note secured by assets of Mediserve Medical Equipment of Kingsport, Inc.	Monthly principal and interest payments of $56 beginning February 2007 maturing December 2011; remaining principal of $6,473 due January 2012	LIBOR + 1.10%	6,064	6,647
Capitalized lease obligations secured by equipment	Various monthly payments of monthly principal and interest	Various	1,325	1,526
$7,482 promissory note secured by property and unsecured letter of credit	Monthly interest-only payments through maturity on December 31, 2010; paid off in 2010	$32 interest per month	-	7,450
Master installment payment agreement	$2,194 due August 1, 2010	Unspecified	2,194	3,140
$1,409 unsecured promissory note	Monthly principal and interest payments of $23 beginning July 2008 through September 2013; remaining principal and accrued interest due October 2014	LIBOR + 1.25%	920	1,202

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Description	Maturities	Rates	Outstanding Balance 2010	2009
$1,800 note payable secured by property	Monthly interest-only payments through maturity in July 2009	3.74%	-	1,800
$10,221 note payable secured by property	Various annual principal and interest payments through April 2013	6.25%	7,836	10,221
$5,000 line of credit secured by investments	Payable on demand	LIBOR + 1.25%	-	5,039
$4,600 note payable secured by property	Monthly principal and interest payments of $50 beginning February 2009 maturing December 2013; remaining principal due January 2014. Note was paid-off in 2010	5.47%	-	4,377
$1,065 note payable secured by land	Monthly interest-only payments through April 2011; remaining principal and accrued interest due May 2011	5.50%	1,065	1,065
$6,332 promissory note secured by substantially all assets of the Alliance	Monthly principal payments of $35 plus accrued interest beginning July 2010 maturing June 2015; remaining principal due July 2015	LIBOR + 2.00%	6,332	-
$3,955 note payable secured by property	Monthly principal and interest payments of $27 beginning July 2010 maturing May 2015; remaining principal due June 2015	3.00%	3,955	-
Note payable under Master Financing Agreement, secured by Equipment	Monthly principal and interest payments of $166 beginning July 2010 maturing June 2017	4.62%	11,900	-
Note payable under Master Financing Agreement, secured by Equipment	Monthly principal and interest payments of $56 beginning July 2010 maturing June 2017	3.75%	4,100	-
$4,926 convertible construction loan secured by property and assigned rents	Monthly interest-only payments through January 2011 followed by monthly principal and interest payments of $25 maturing December 2014; remaining principal and accrued interest due January 2015	Prime (stated minimum and maximum interest rates of 3.75% and 6.75%, respectively)	1,195	-
$1,885 line of credit secured by property	Monthly interest-only payments through March 2011 followed by monthly principal and interest payments of $9 maturing February 2015; remaining principal and accrued interest due March 2015	Prime - 0.50% (stated minimum and maximum interest rates of 3.50% and 6.25%, respectively)	265	-
			1,082,973	1,072,250
	Less current portion		(28,131)	(31,306)
			$ 1,054,842	$ 1,040,944

Series 2010 Bonds: In April 2010, the Alliance issued $168,080 (Series 2010A) and $35,935 Series 2010B fixed rate Hospital Refunding Revenue Bonds (collectively, the Series 2010 Bonds). Proceeds of the Series 2010A and the Series 2010B Bonds were used to refinance outstanding indebtedness, specifically related to the Alliance's facilities in Tennessee and in Virginia, respectively, fund debt service reserve funds and pay costs of issuance. The Alliance recognized a $3,029 loss on early extinguishment of debt representing the write off of previously deferred and unamortized financing costs related to the refinanced Series 2008A and the Series 2007A and 2007C debt issues discussed below.

Series 2009 Bonds

In March 2009, the Alliance issued $5,560 (Series 2009A), $5,535 (Series 2009B) and $115,955 (Series 2009C) fixed rate Hospital Revenue Bonds (collectively, the Series 2009 Bonds). The proceeds of Series 2009 Bonds were used to refinance a portion of the outstanding Series 2006C

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Taxable Notes, which were originally issued to finance a capital commitment to SCCH and purchase certain leased assets, finance the acquisition of a majority ownership in JMH, fund a debt service reserve fund and pay costs of issuance. The portion of the 2006C taxable notes which were not refinanced with the Series 2009 Bonds were repaid with cash on hand.

In connection with its acquisition of a majority ownership in JMH, the Alliance assumed the then outstanding long-term debt of JMH, totaling $33,906, including the JMH Series 1998 Hospital Refunding and Improvement Revenue Bonds as further described in the table above.

Series 2008 Bonds

In February 2008, the Alliance issued $72,770 (Series 2008A) and $54,230 (Series 2008B) variable rate Hospital Revenue Bonds (collectively, the Series 2008 Bonds). The proceeds of Series 2008 Bonds were primarily used to finance certain future capital projects for the Alliance's hospital facilities and for the repayment of previously issued 2008 Taxable Notes used for the acquisition of RCMC. The payment of principal and interest on the Series 2008 Bonds and the purchase price of any tendered bonds on each series are secured by a separate, irrevocable, transferable, direct-pay letter of credit (the Letters of Credit). The Letters of Credit entitle the Master Trustee to draw amounts equal to the principal amounts of the Series 2008 Bonds outstanding and up to 35 days interest at a rate of 12%. The Letters of Credit expire on December 14, 2012 unless renewed or replaced. A portion ($59,525) of the Series 2008A Bonds were repaid from proceeds of the Series 2010 Bonds.

The variable rate of interest on the Series 2008 Bonds is determined weekly by the Remarketing Agent (Merrill Lynch), as the rate equal to the lowest rate which, in regard to general financial conditions and other special conditions bearing on the rate, would produce as nearly as possible a par bid for the Series 2008 Bonds in the secondary market. In no event shall the variable rate on the Series 2008 Bonds during any period where interest is calculated weekly exceed the lesser of 12% annually or the maximum contract rate of interest permitted by the State of Tennessee for the Series 2008A Bonds or the Commonwealth of Virginia for the Series 2008B Bonds. The Alliance has the option, upon written approval of the holder of the Letters of Credit, the Remarketing Agent and others, to convert to a medium-term rate period or to a fixed rate.

The Series 2008 Bonds are subject to optional and mandatory tender for purchase prior to maturity at the option of the holder, upon conversion to a fixed rate, upon conversion to a medium-term rate period, prior to the effective date of any substitute letter of credit, or upon the termination of the Letters of Credit. The optional and mandatory tender provisions generally call for the Master Trustee to purchase the outstanding Series 2008 Bonds at a purchase price equal to the principal amount thereof plus accrued interest upon a stated date as described in the tender notice delivered to the bond holders.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Series 2007 Bonds

In December 2007, the Alliance issued $104,355 (Series 2007A), $327,170 (Series 2007B taxable) and $36,575 (Series 2007C) variable rate Hospital Revenue Bonds (collectively, the Series 2007 Bonds). The proceeds of Series 2007 Bonds were primarily used to early extinguish a portion of the outstanding Series 2000A Bonds, all of the outstanding 2000B Bonds, all of the outstanding Series 1994 Bonds, and all of the outstanding Series 2006B Bonds; to finance the acquisition of a majority ownership in NCH, and to finance certain capital improvements and equipment acquisitions for the Alliance's hospital facilities. The payment of principal and interest on the Series 2007 Bonds and the purchase price of any tendered bonds on each series are secured by a separate, irrevocable, transferable, direct-pay letter of credit (the Letters of Credit). The Letters of Credit entitle the Master Trustee to draw amounts equal to the principal amounts of the Series 2007 Bonds outstanding and up to 35 days interest at a rate of 12%. The Letters of Credit expire on December 14, 2012 unless renewed or replaced. A portion of the outstanding Series 2007A ($91,685) and Series 2007C ($32,840) Bonds were repaid from proceeds of the Series 2010 Bonds.

The variable rate of interest on the Series 2007 Bonds is determined weekly in the same manner as described above for the Series 2008 Bonds. In no event shall the variable rate on the Series 2007 Bonds during any period where interest is calculated weekly exceed the lesser of 12% annually or the maximum contract rate of interest permitted by the State of Tennessee for the Series 2007A and 2007B Bonds or the Commonwealth of Virginia for the 2007C Bonds. The Alliance has the option, upon written approval of the holder of the Letters of Credit, the Remarketing Agent and others, to convert to a medium-term rate period or to a fixed rate. Upon such conversion, the Series 2007 Bonds become subject to mandatory tender for purchase.

The Series 2007 Bonds are subject to optional and mandatory tender in the same manner as described above for the Series 2008 Bonds. In addition, the Series 2007B Bonds are subject to a special mandatory tender with respect to its conversion from taxable debt to tax-exempt debt.

Series 2006 Bonds

During 2006, the Alliance issued $173,030 Hospital First Mortgage Revenue Bonds (Series 2006A) and $66,500 Hospital First Mortgage Variable Rate Revenue Bonds (Series 2006B). The proceeds from the sale of the Series 2006A Bonds were used to finance certain future and prior capital projects for the Alliance's hospital facilities and to refund certain existing indebtedness, specifically the Series 2001B Bonds (discussed below) and certain existing short and intermediate term loans and leases, as well as fund a debt service reserve fund. The Series 2006B Bond proceeds were substantially used to refund the remaining outstanding principal of the Series 2001B Bonds and establish a debt service reserve fund.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Series 2001 Bonds

During 2001, the Alliance issued $26,000 Hospital First Mortgage Revenue Bonds (Series 2001A) and $60,175 Hospital First Mortgage Revenue Bonds (Series 2001B). The Series 2001A Bonds were subject to optional tender by Bond holders. Effective July 1, 2007, the Alliance entered into an agreement whereby the beneficial owners of the Series 2001A Bonds have irrevocably waived their rights to tender the Bonds under the provisions of the respective Bond Indenture. The waiver will continue in effect through the maturity of the 2001A Bonds. The Series 2001B Bonds were refunded and redeemed in 2006.

Series 2000 Bonds

The Hospital First Mortgage Revenue Refunding (Series 2000A Bonds) and First Mortgage Revenue Refunding Bonds (Series 2000B Bonds), were used to advance refund previously existing indebtedness as well as fund a required debt service reserve fund. The Hospital First Mortgage Revenue Bonds (Series 2000C Taxable Bonds) were intended to refinance certain mortgage indebtedness of BRMM, and to refund other previously existing indebtedness. The proceeds from the sale of the First Mortgage Bonds (Series 2000D Taxable Bonds) were used primarily to fund working capital for the Alliance.

The Series 2000A Bonds included at issue date $14,680 of insured Capital Appreciation Bonds. Such bonds bear a 0% coupon rate and have a yield of 6.625% annually. The Alliance recognizes interest expense and increases the amount of outstanding debt each year based upon this yield. Total principal and interest due at maturity (2026 through 2030) is $93,675.

The advance refunding of previously issued debt requires funds to be placed in irrevocable trusts in order to satisfy remaining scheduled principal and interest payments. Management, upon advice of legal counsel, believes the amounts deposited in such irrevocable trust accounts have contractually relieved the Alliance of any future obligations with respect to this debt, and the debt and escrowed securities are not considered liabilities or assets of the Alliance. Therefore, such debt has been derecognized.

Debt outstanding and not recognized in the Consolidated Balance Sheet at June 30, 2010 due to previous advance refundings of the Series 2000A Bonds, Series 2000B Bonds, Series 1998C Bonds, and Series 1991 Bonds, totaled approximately $585,960.

The assets placed in the irrevocable trust accounts are also not recognized as assets of the Alliance. These assets consist primarily of various investments, as permitted by bond indentures and other

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

documents, including United States Treasury obligations, an investment contract with MBIA Insurance Corporation (MBIA) in the amount of $54,300, as well as the Series 2000C and 2000D Bonds which were purchased with the proceeds of the 2000A and 2000B Bonds specifically for the purpose of utilizing the Series 2000C and 2000D Bonds in the irrevocable trust. Therefore, certain of the assets held in the irrevocable trust accounts have future income streams contingent upon payments by the Alliance.

Essentially all of the Alliance's bonds are subject to redemption prior to maturity, including optional, mandatory sinking fund and extraordinary redemption, at various dates and prices as described in the respective Bond indentures and other documents.

Other Bonds, Notes Payable and Financing Arrangements

The Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding bonds. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued.

The NCH Series 2001 Hospital Refunding and Improvement Revenue Bonds are secured by revenues and a lien on certain real and personal property of NCH. The JMH Series 1998 Hospital Refunding and Improvement Revenue Bonds are secured by pledged gross receipts of JMH, as defined in the Master Trust indenture.

The scheduled maturities and mandatory sinking fund payments of the long-term debt and capital lease obligations (excluding interest), exclusive of net unamortized original issue discount and premium, at June 30, 2010 are as follows:

Year Ending June 30,		
2011		$ 28,131
2012		35,002
2013		30,312
2014		28,035
2015		31,898
Thereafter		930,227
		1,083,605
	Net discount	(632)
		$ 1,082,973

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

The Alliance, NCH and JMH are each members of separate Obligated Groups. The bond indentures, master trust indentures, letter of credit agreements and loan agreements related to the various bond issues and notes payable contain covenants with which the respective Obligated Groups must comply. These requirements include maintenance of certain financial and liquidity ratios, deposits to trustee funds, permitted indebtedness, use of facilities and disposals of property. These covenants also require that failure to meet certain debt service coverage tests will require the deposit of all daily cash receipts of the Alliance into a trust fund. Management has represented the Alliance, NCH and JMH are in compliance with all such covenants at June 30, 2010.

In connection with the tax-exempt bonds, the Alliance is required every five years, and at maturity, to remit to the Internal Revenue Service amounts which are due related to positive arbitrage on the borrowed funds. The Alliance performs such computations when required and recognizes any liability at that time. Management does not believe there are any significant arbitrage liabilities at June 30, 2010 or 2009.

In September 2010, in order to reduce credit risk and expenses, the Alliance replaced the existing letters of credit related to the Series 2007B, Series 2008A and Series 2008B Bonds with letters of credit held by several different financial institutions. The term of the letter of credit facility is for three years. As a part of this restructuring, the existing Bonds in these series were repaid through a remarketing of sub-series of each respective bond issue created per the mandatory tender and letter of credit substitution provisions.

NOTE G--SELF-INSURANCE PROGRAMS

The Alliance is self-insured for professional and general liability claims and related expenses. The Alliance maintains a $25,000 umbrella liability policy that attaches over the self-insurance limits of $10,000 per claim and a $15,000 annual aggregate retention. The Alliance also provides professional liability coverage for certain affiliates and joint ventures.

The Alliance is self-insured for workers' compensation claims in the State of Tennessee and has established estimated liabilities for both reported and unreported claims. The Alliance maintains a stop-loss policy that attaches over the self-insurance limits of $1,000 per occurrence and $1,000 annual aggregate retention. In the State of Virginia, the Alliance is not self-insured and maintains workers' compensation insurance through commercial carriers.

At June 30, 2010, the Alliance is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through June 30, 2010 that may result in the assertion of additional claims, and other unreported claims may be asserted arising from services provided in the past. Alliance

(Dollars in Thousands)

NOTE G--SELF-INSURANCE PROGRAMS - Continued

management has estimated and accrued for the cost of these unreported claims based on historical data and actuarial projections. The estimated net present value of malpractice and workers' compensation claims, both reported and unreported, as of June 30, 2010 and 2009 was $12,601 and $12,887, respectively. The discount rate utilized was 5% at June 30, 2010 and 2009.

Additionally, the Alliance is self-insured for employee health claims and recognizes expense each year based upon actual claims paid and an estimate of claims incurred but not yet paid, including a catastrophic claims reserve based on historical claims in excess of $75.

NOTE H--NET PATIENT SERVICE REVENUE

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the accompanying Consolidated Statements of Operations and Changes in Net Assets is as follows for the years ended June 30:

	2010	*2009*
Inpatient service charges	$ 1,848,590	$ 1,630,110
Outpatient service charges	1,669,705	1,253,097
Gross patient service charges	3,518,295	2,883,207
Less:		
Estimated contractual adjustments and other discounts	2,417,082	1,929,061
Estimated uncollectible self-pay - Note B	111,565	86,760
Charity care	61,378	44,488
	2,590,025	2,060,309
Net patient service revenue	$ 928,270	$ 822,898

NOTE I--THIRD-PARTY REIMBURSEMENT

The Alliance renders services to patients under contractual arrangements with Medicare, Medicaid, TennCare, Blue Cross and various other commercial payors. The Medicare program pays for inpatient services on a prospective basis. Payments are based upon diagnosis related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. The Alliance also receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid and other low income patients. Most Medicare outpatient services are reimbursed on a prospectively determined payment methodology. The

NOTE I--THIRD-PARTY REIMBURSEMENT - Continued

Medicare program also reimburses certain other services on the basis of reasonable cost, subject to various prescribed limitations and reductions.

Reimbursement under the State of Tennessee's Medicaid waiver program (TennCare) for inpatient and outpatient services is administered by various managed care organizations (MCOs) and is based on diagnosis related group assignments, a negotiated per diem or fee schedule basis. The Alliance also receives additional supplemental payments from the State of Tennessee. The amount recognized totaled $8,700 and $11,137 for the years ended June 30, 2010 and 2009, respectively. Such payments are not guaranteed in future periods.

The Virginia Medicaid program reimbursement for inpatient hospital services is based on a prospective payment system using both a per case and per diem methodology. Additional payments are made for the allowable costs of capital. Payments for outpatient services are based on Medicare cost reimbursement principles and settled through the filing of an annual Medicaid cost report.

Amounts earned under the contractual agreements with the Medicare and Medicaid programs are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. 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. Activity with respect to audits and reviews of the governmental programs in the healthcare industry has increased and is expected to increase in the future. No additional specific reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts. Management believes that any adjustments from these increased audits and reviews will not have a material adverse impact on the consolidated financial statements. However, due to uncertainties in the estimation, it is at least reasonably possible that management's estimate will change in 2011, although the amount of any change cannot be estimated. The impact of final settlements of cost reports or changes in estimates decreased net patient service revenue by $3,540 in 2009. The impact of final settlements of cost reports or changes in estimates were not significant in 2010.

Participation in the Medicare program subjects the Alliance to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the program. Management believes that adequate provision has been made for any adjustments, fines or penalties which may result from final settlements or violations of other rules or regulations. Management has represented that the Alliance is in substantial compliance with these rules and regulations as of June 30, 2010.

The Alliance has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and employer groups. The basis

NOTE I--THIRD-PARTY REIMBURSEMENT - Continued

for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

NOTE J--EMPLOYEE BENEFIT PLANS

The Alliance sponsors a retirement plan (the Plan) which covers substantially all employees. The Plan is a defined contribution plan which consists mainly of employer-funded contributions. During 2010 and 2009, the Alliance made contributions to the Plan under a stratified system, whereby the Alliance's contribution percentage is based on each employee's years of service. In addition, the Alliance sponsors a 403(b) plan which is funded solely by employees' contributions. The Alliance does not make any discretionary or matching contributions into the 403(b) plan. Employees of certain other subsidiaries are covered by other plans, although such plans are not significant. The total expense related to defined contribution plans for the years ended June 30, 2010 and 2009 was $13,311 and $10,590, respectively.

NCH maintains a defined benefit pension plan and a post-retirement employee benefit plan. The accrued unfunded pension liability was $1,942 and $1,972, and the accrued unfunded post-retirement liability was $3,843 and $4,821 at June 30, 2010 and 2009, respectively.

The Alliance sponsors a secured executive benefit program (SEBP) for certain key executives. Contributions to the plan by the Alliance are based on an annual amount of funding necessary to produce a target benefit for the participants at their retirement date, although the Alliance does not guarantee any level of benefit will be achieved. The Alliance contributed $1,303 and $1,716 to the plan during 2010 and 2009, respectively. Other assets at June 30, 2010 and 2009 include $7,077 and $5,827, respectively, related to the Alliance's portion of the benefits which are recoverable upon the death of the participant. In addition, the Alliance sponsors a Section 457(f) plan for certain key executives. The benefits for substantially all employees previously participating in the SEBP plan have been transferred into the 457(f) plan.

NOTE K--CONCENTRATIONS OF RISK

The Alliance has locations primarily in upper East Tennessee and Southwest Virginia which is considered a geographic concentration. The Alliance grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Net patient service revenue from Washington County, Tennessee operations were approximately 54% and 59% of total net patient service revenue for 2010 and 2009, respectively.

The mix of receivables from patients and third-party payors based on charges at established rates is as follows as of June 30:

(Dollars in Thousands)

NOTE K--CONCENTRATIONS OF RISK - Continued

	2010	***2009***
Medicare	42%	40%
Tenncare/Medicaid	15%	17%
Commercial	25%	31%
Other third-party payors	10%	5%
Patients	8%	7%
	100%	100%

Approximately 98% of the consolidated total revenue, gains and support were related to the provision of healthcare services during 2010 and 2009. Admitting physicians are primarily practitioners in the regional area.

Two of the Alliance's Virginia hospitals' employees are covered under collective bargaining agreements. These agreements expire in January 2011.

The Alliance routinely invests in investment vehicles as listed in Note C. The Alliance's investment portfolio is managed by outside investment management companies. Investments in corporate and foreign bonds and notes, municipal obligations, money market funds, equities and other vehicles that are held by safekeeping agents are not insured or guaranteed by the U.S. government.

NOTE L--INCOME TAXES

BRMM and its subsidiaries file a consolidated federal tax return and separate state tax returns. As of June 30, 2010 and 2009, BRMM and its subsidiaries had net operating loss carryforwards for consolidated federal purposes of $32,447 and $35,448, respectively, related to operating losses which expire through 2025. BRMM had state net operating loss carryforwards of $59,860 and $58,771, respectively, which expire through 2025. The net operating loss carryforwards may be offset against future taxable income to the extent permitted by the Internal Revenue Code and Tennessee Code Annotated.

At June 30, 2010 and 2009, SWCH had federal and state net operating loss carryforwards of $4,376 and $3,923, respectively, which expire through 2029. CHC files separate federal and state tax returns. CHC had a net deferred tax liability of $58 at June 30, 2010 and a net deferred tax asset of $55 at June 30, 2009; the differences are due primarily to temporary timing differences related to depreciation and net operating loss carryforwards. The net operating loss carryforwards may be offset against future taxable income to the extent permitted by the Internal Revenue Code and tax codes of the Commonwealth of Virginia.

NOTE L--INCOME TAXES - Continued

Net deferred tax assets related to these carryforwards and other deferred tax assets have been substantially offset through valuation allowances equal to these amounts. Income taxes paid relate primarily to state taxes for certain subsidiaries and federal alternative minimum tax.

NOTE M--RELATED PARTY TRANSACTIONS

The Alliance enters into transactions with entities affiliated with certain members of the Board of Directors including transactions to construct Alliance facilities and provide professional services to the Alliance. Board members refrain from discussion and abstain from voting on transactions with entities with which they are related.

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES

Construction in Progress: Construction in progress at June 30, 2010 represents costs incurred related to various hospital and medical office building facility renovations and additions. The Alliance has outstanding contracts and other commitments related to the completion of these projects, and the cost to complete these projects is estimated to be approximately $223,847 at June 30, 2010. The Alliance does not expect any significant costs to be incurred for infrastructure improvements to assets held for resale.

Physician Contracts: BRMM employs physicians to provide services to BRMM's physician practices through employment agreements which provide annual compensation, plus incentives based upon specified productivity levels. These contracts have various terms.

In addition, the Alliance has entered into contractual relationships with non-employed physicians to provide services in Upper East Tennessee and Southwest Virginia. These contracts guarantee certain base payments and allowable expenses and have terms of varying lengths. Upon completion of the respective guarantee period, amounts drawn and outstanding under each agreement are treated as a loan bearing interest at various rates and are subject to repayment over a specified period. The physician note may also be amortized by virtue of the physician's continued practice in the specified community during the repayment period. A net receivable of $1,818 and $2,770 related to these agreements is included in the accompanying Consolidated Balance Sheets at June 30, 2010 and 2009, respectively.

Employee Scholarships: The Alliance offers scholarships to certain individuals which require that the recipients return to the Alliance to work for a specified period of time after they complete their degree. Amounts due are then forgiven over a specific period of time as provided in the individual contracts. If the recipient does not return and work the required period of time, the funds disbursed on their behalf become due immediately and interest is charged until the funds are repaid. Other receivables June 30, 2010 and 2009 includes $5,571 and $3,880, respectively, related to students in

(Dollars in Thousands)

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES - Continued

school, graduates working at the Alliance and amounts due from others who are no longer in the scholarship program.

Promises to Give: The Alliance has recorded certain unconditional promises to give to unrelated organizations. At June 30, 2010, $1,768 is due within one year, and an additional $644 is due within five years and is included in other long-term liabilities.

Operating Leases and Maintenance Contracts: Total lease expense for the years ended June 30, 2010 and 2009 was $10,216 and $9,412, respectively. Future minimum lease payments for each of the next five years and in the aggregate for the Alliance's noncancellable operating leases with remaining lease terms in excess of one year are as follows:

Year Ending June 30,		
2011	$	1,686
2012		1,560
2013		1,345
2014		1,000
2015		835
Thereafter		3,808
	$	10,234

Estimated future minimum payments under various noncancellable maintenance contracts with remaining terms in excess of one year at June 30, 2010 total in the aggregate $3,720 through 2015.

Asset Retirement Obligation: The Alliance has identified asbestos in certain facilities and is required by law to dispose of it in a special manner if the facility undergoes major renovations or is demolished; otherwise, the Alliance is not required to remove the asbestos from the facility. The Alliance has complied with regulations by treating the asbestos so that it presents no known immediate or future safety concerns. An asset retirement obligation has been established to the extent that sufficient information exists upon which to estimate the liability.

Other: During 2007, the Alliance received a Certificate of Need (CON) application to build a new 80-bed hospital in Washington County, Tennessee. When this new facility (FWCH) is opened in 2011, acute care services are planned to be discontinued or reduced at both NSH and JCSH. Management anticipates that the NSH and JCSH facilities will continue to be fully utilized by the

(Dollars in Thousands)

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES - Continued

Alliance in its operations and, therefore, no change to their estimated useful lives is anticipated. However, it is reasonably possible management's estimates related to the continuing use of these facilities could change in the near term. The carrying value of buildings and improvements related to these facilities is $12,493 at June 30, 2010.

During 2007, the Alliance filed a Certificate of Public Need (COPN) application to build a new 57-bed hospital in Smyth County, Virginia. The COPN has been approved by the applicable Commonwealth of Virginia agencies. Construction is expected to begin in 2011 and total costs are expected to be $68,216.

The Alliance is a party to various transactions and agreements in the normal course of business, which include purchase and re-purchase agreements, put arrangements and other commitments, which may bind the Alliance to undertake additional transactions or activities in the future.

NOTE O--RENTAL INCOME UNDER OPERATING LEASES

The Alliance leases rental properties to third parties, most of whom are physician practices, for various terms, generally five years. The following is a schedule by year and in the aggregate of minimum future rental income due under noncancellable operating leases at June 30, 2010:

Year Ending June 30,	
2011	$ 1,648
2012	1,545
2013	995
2014	730
2015	615
Thereafter	858
Total minimum future rentals	$ 6,391

NOTE P--FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Alliance using available market information as of June 30, 2010 and 2009, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Alliance could realize in a current market exchange. The carrying value of substantially all financial instruments approximates fair value due to the nature or term of the instruments, except as described below.

NOTE P--FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Investment in Joint Ventures: It is not practical to estimate the fair market value of the investments in joint ventures.

Other Long-Term Liabilities: Estimates of reported and unreported professional liability claims, pension and post-retirement liabilities are discounted to approximate their estimated fair value. It is not practical to estimate the fair market value of other long-term liabilities due to uncertainty of when these amounts may be paid. Other long-term liabilities are not discounted.

Long-Term Debt and Capital Leases: The fair value of long-term debt is estimated based upon quotes obtained from brokers for bonds and discounted future cash flows using current market rates for other debt. For long-term debt with variable interest rates, the carrying value approximates fair value.

The Alliance's significant capital leases and vendor contracts were negotiated with various entities and are considered unique. It is not practicable to estimate the fair value of these obligations under current conditions. Other capital lease obligations are not significant.

The estimated fair value of the Alliance's financial instruments that have carrying values different from fair value is as follows at June 30:

	2010		*2009*	
	Carrying Value	*Estimated Fair Value*	*Carrying Value*	*Estimated Fair Value*
FINANCIAL LIABILITIES:				
Long-term debt	$ 1,082,973	$ 1,105,778	$ 1,072,250	$ 988,263

NOTE Q--FAIR VALUE MEASUREMENT

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation 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 based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

(Dollars in Thousands)

NOTE Q--FAIR VALUE MEASUREMENT - Continued

- Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Alliance's own assumptions.

In instances where the determination of the fair value hierarchy 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 Alliance'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.

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of June 30, 2010 and 2009:

	June 30, 2010	*Level 1*	*Level 2*	*Level 3*
Trading securities	$ 209,644	$ 164,510	$ 16,526	$ 28,608
Assets whose use is limited	177,180	177,180	-	-
Total assets	$ 386,824	$ 341,690	$ 16,526	$ 28,608
Fair value of derivative agreements	$ (134,300)	$ -	$ -	$ (134,300)

	June 30, 2009	*Level 1*	*Level 2*	*Level 3*
Trading securities	$ 235,065	$ 191,918	$ 13,116	$ 30,031
Assets whose use is limited	186,414	186,414	-	-
Total assets	$ 421,479	$ 378,332	$ 13,116	$ 30,031
Fair value of derivative agreements	$ (126,217)	$ -	$ -	$ (126,217)

The valuation of the Alliance's derivative agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses observable market-based inputs, including forward interest rate curves. The fair values of interest rate swap agreements are determined by netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates based on observable market forward interest rate curves and the underlying notional amount. The Alliance also

(Dollars in Thousands)

NOTE Q--FAIR VALUE MEASUREMENT - Continued

incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty's nonperformance or credit risk in the fair value measurements. The CVA on the Alliance's interest rate swap agreements at June 30, 2010 and 2009 resulted in a decrease in the fair value of the related liability of $10,085 and $7,914, respectively.

A certain portion of the inputs used to value its interest rate swap agreements, including the forward interest rate curves and market perceptions of the Alliance's credit risk used in the CVAs, are unobservable inputs available to a market participant. As a result, the Alliance has determined that the interest rate swap valuations are classified in Level 3 of the fair value hierarchy.

The following tables provide a summary of changes in the fair value of the Alliance's Level 3 financial assets and liabilities during the fiscal years ended June 30, 2010 and 2009:

	Trading Securities	*Derivatives, Net*
July 1, 2008	$ 32,187	$ (87,295)
Total unrealized/realized losses in the performance indicator, net	(9,298)	(42,128)
Purchases, issuance and settlements and other, net	1,015	3,206
Transfers in (out), net	6,127	-
June 30, 2009	30,031	(126,217)
Total unrealized/realized losses in the performance indicator, net	(1,546)	(8,607)
Purchases, issuance and settlements and other, net	1,446	524
Transfers in (out), net	(1,323)	-
June 30, 2010	$ 28,608	$ (134,300)
Net losses included in the performance indicator which are attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2009	$ (9,298)	$ (43,172)
Net losses included in the performance indicator which are attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2010	$ (1,920)	$ (27,116)

On July 1, 2009, the Alliance adopted the provisions of FASB ASC 820 related to non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis. The Alliance does not have any non-financial liabilities recognized or disclosed at fair value on a non-recurring basis. Assets subject to this guidance primarily include certain goodwill, property and equipment

(Dollars in Thousands)

NOTE Q--FAIR VALUE MEASUREMENT - Continued

and investments in unconsolidated affiliates. There were no significant assets or liabilities that were re-measured at fair value on a non-recurring basis during the fiscal year ended June 30, 2010.

NOTE R--OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

Direct expenses by functional classification are as follows for the years ended June 30:

	2010	*2009*
Healthcare services	$ 795,725	$ 686,779
Administrative and general	124,338	135,994
Other	8,625	10,168
	$ 928,688	$ 832,941

Supplemental Schedules

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet
(Dollars in Thousands)

June 30, 2010

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Mountain States Properties	Other Entities	Eliminations	Total
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 1,043	$ 204,966	$ -	$ 206,009	$ 7,566	$ 20,951	$ -	$ 234,526
Current portion of investments	-	9,588	-	9,588	14,120	4,759	-	28,467
Patient accounts receivable, less estimated allowances for contractual adjustments and uncollectible accounts	4,457	84,416	-	88,873	-	36,707	-	125,580
Other receivables, net	352	10,277	-	10,629	788	6,509	-	17,926
Inventories and prepaid expenses	192	18,977	-	19,169	183	9,811	-	29,163
TOTAL CURRENT ASSETS	6,044	328,224	-	334,268	22,657	78,737	-	435,662
INVESTMENTS, less amounts required to meet current obligations	17,166	266,104	-	283,270	18,765	284,721	-	586,756
PROPERTY, PLANT AND EQUIPMENT, net	9,152	463,652	-	472,804	66,295	156,499	-	695,598
EQUITY IN AFFILIATES	138,930	391,644	(160,670)	369,904	-	-	(369,904)	-
OTHER ASSETS								
Goodwill, net of accumulated amortization	6,246	143,276	-	149,522	-	1,830	-	151,352
Net deferred financing, acquisition costs and other charges, less current portion	176	28,458	-	28,634	1,540	645	-	30,819
Other assets	10,695	8,087	-	18,782	3,608	6,923	-	29,313
TOTAL OTHER ASSETS	17,117	179,821	-	196,938	5,148	9,398	-	211,484
	$ 188,409	$ 1,629,445	$ (160,670)	$ 1,657,184	$ 112,865	$ 529,355	$ (369,904)	$ 1,929,500

* Management Services Organization only

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet - Continued
(Dollars in Thousands)

June 30, 2010

	*Blue Ridge Medical Management **	*Other Obligated Group Members*	*Eliminations*	*Total Obligated Group*	*Mountain States Properties*	*Other Entities*	*Eliminations*	*Total*
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Accrued interest payable	$ -	$ 15,550	$ -	$ 15,550	$ 4	$ 485	$ -	$ 16,039
Current portion of long-term debt and capital lease obligations	550	23,743	-	24,293	50	3,788	-	28,131
Current portion of estimated fair value of derivatives	-	-	-	-	10,740	-	-	10,740
Accounts payable and accrued expenses	2,159	76,098	-	78,257	1,317	19,653	-	99,227
Accrued salaries, compensated absences and amounts withheld	2,695	31,604	-	34,299	-	12,981	-	47,280
Payables to (receivables from) affiliates, net	9,392	(10,146)	-	(754)	(33,334)	34,088	-	-
Estimated amounts due to third-party payors, net	-	7,983	-	7,983	-	2,172	-	10,155
TOTAL CURRENT LIABILITIES	14,796	144,832	-	159,628	(21,223)	73,167	-	211,572
OTHER LIABILITIES								
Long-term debt and capital lease obligations, less current portion	5,515	1,006,038	-	1,011,553	1,144	42,145	-	1,054,842
Estimated fair value of derivatives, less current portion	-	123,308	-	123,308	252	-	-	123,560
Deferred revenue	-	20,092	-	20,092	-	353	-	20,445
Estimated professional liability self-insurance	2,229	5,075	-	7,304	-	2,237	-	9,541
Other long-term liabilities	5,199	1,598	-	6,797	-	5,831	-	12,628
TOTAL LIABILITIES	27,739	1,300,943	-	1,328,682	(19,827)	123,733	-	1,432,588
MINORITY INTERESTS	-	-	-	-	-	168,410	-	168,410
NET ASSETS								
Unrestricted net assets	160,670	317,434	(160,670)	317,434	132,692	226,356	(359,048)	317,434
Temporarily restricted net assets	-	10,941	-	10,941	-	10,729	(10,729)	10,941
Permanently restricted net assets	-	127	-	127	-	127	(127)	127
TOTAL NET ASSETS	160,670	328,502	(160,670)	328,502	132,692	237,212	(369,904)	328,502
	$ 188,409	$ 1,629,445	$ (160,670)	$ 1,657,184	$ 112,865	$ 529,355	$ (369,904)	$ 1,929,500

*Management Services Organization only.

MOUNTAIN STATES HEALTH ALLIANCE

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

Year Ended June 30, 2010

	*Blue Ridge Medical Management **	*Other Obligated Group Members*	*Eliminations*	*Total Obligated Group*	*Mountain States Properties*	*Other Entities*	*Eliminations*	*Total*
CHANGES IN UNRESTRICTED NET ASSETS:								
Revenue, gains and support:								
Net patient service revenue	$ 32,979	$ 657,122	$ (1,556)	$ 688,545	$ -	$ 239,921	$ (196)	$ 928,270
Other operating revenue	24,046	3,914	(18,087)	9,873	7,430	32,519	(33,813)	16,009
Equity in net gain of affiliates	6,702	4,959	(5,460)	6,201	-	15	(6,216)	-
TOTAL REVENUE, GAINS AND SUPPORT	63,727	665,995	(25,103)	704,619	7,430	272,455	(40,225)	944,279
Expenses:								
Salaries and wages	15,053	225,269	-	240,322	139	87,975	(2,773)	325,663
Physician salaries and wages	28,752	1,133	-	29,885	-	49,009	(24,405)	54,489
Contract labor	873	3,460	-	4,333	-	2,499	(286)	6,546
Employee benefits	5,152	43,758	(1,615)	47,295	39	22,587	(1,559)	68,362
Fees	2,206	76,192	(18,018)	60,380	830	21,867	(535)	82,542
Supplies	2,200	132,563	-	134,763	1	40,898	(193)	175,469
Utilities	510	10,078	-	10,588	1,010	4,595	-	16,193
Other	4,024	39,787	(11)	43,800	2,611	25,482	(4,253)	67,640
Depreciation	1,059	42,890	-	43,949	2,585	21,902	-	68,436
Amortization	266	12,711	-	12,977	-	146	-	13,123
Estimated provision for bad debts	1,522	3,822	-	5,344	-	2,617	-	7,961
Interest and taxes	(1,279)	41,601	-	40,322	1,409	4,787	(4,254)	42,264
TOTAL EXPENSES	60,338	633,264	(19,644)	673,958	8,624	284,364	(38,258)	928,688
OPERATING INCOME	3,389	32,731	(5,459)	30,661	(1,194)	(11,909)	(1,967)	15,591
Nonoperating gains (losses):								
Interest and dividend income	546	10,904	-	11,450	791	9,311	(4,254)	17,298
Net realized gains on the sale of securities	128	1,543	-	1,671	-	714	-	2,385
Net unrealized gains on securities	596	8,083	-	8,679	1,312	5,027	-	15,018
Derivative related income	-	2,622	-	2,622	1,772	-	-	4,394
Loss on early extinguishment of debt	-	(3,029)	-	(3,029)	-	-	-	(3,029)
Change in estimated fair value of derivatives	-	(10,865)	-	(10,865)	2,258	-	-	(8,607)
Other nonoperating gains (losses)	800	2,502	-	3,302	533	(3,323)	-	512
Net assets released from restrictions used for operations	-	-	-	-	-	1,113	-	1,113
NET NONOPERATING GAINS	2,070	11,760	-	13,830	6,666	12,842	(4,254)	29,084
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES, BEFORE MINORITY INTERESTS	5,459	44,491	(5,459)	44,491	5,472	933	(6,221)	44,675

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Operations and Changes in Net Assets - Continued (Dollars in Thousands)

Year Ended June 30, 2010

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Mountain States Properties	Other Entities	Eliminations	Total
Minority interest in consolidated subsidiaries' net gain	-	-	-	-	-	(3,162)	-	(3,162)
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	5,459	44,491	(5,459)	44,491	5,472	(2,229)	(6,221)	41,513
Other changes in unrestricted net assets:								
Pension and other defined benefit plan adjustments	-	-	-	-	-	1,589	-	1,589
Net assets released from restrictions used for the purchase of property, plant and equipment	-	-	-	-	-	2,283	-	2,283
INCREASE IN UNRESTRICTED NET ASSETS	5,459	44,491	(5,459)	44,491	5,472	1,643	(6,221)	45,385
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	(393)	-	(393)	-	(844)	-	(1,237)
DECREASE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-	-	(50)	-	(50)
INCREASE IN TOTAL NET ASSETS	5,459	44,098	(5,459)	44,098	5,472	749	(6,221)	44,098
NET ASSETS, BEGINNING OF YEAR	155,211	284,404	(155,211)	284,404	127,220	236,463	(363,683)	284,404
NET ASSETS, END OF YEAR	$ 160,670	$ 328,502	$ (160,670)	$ 328,502	$ 132,692	$ 237,212	$ (369,904)	$ 328,502

*Management Services Organization only.

NOTE A--OBLIGATED GROUP MEMBERS

As described in Note F to the consolidated financial statements, the Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding bonds. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. In accordance with Article Six, Section 6.6 of the Amended and Restated Master Trust Indenture between Mountain States Health Alliance and the Bank of New York Trust Company, NA as Master Trustee, those members pledged include Johnson City Medical Center Hospital, Indian Path Medical Center and Pavilion, North Side Hospital, Sycamore Shoals Hospital, Johnson City Specialty Hospital, Johnson County Community Hospital, Russell County Medical Center and Blue Ridge Medical Management Corporation (parent company only), collectively defined as the Obligated Group (Obligated Group).

The supplemental consolidating schedules include the accounts of the members of the Obligated Group after elimination of all significant intergroup accounts and transactions. Certain other subsidiaries of the Alliance, Mountain States Properties, Inc. (MSP) and all other affiliates (Other Entities), are not pledged to secure the payment of the outstanding bonds as they are not part of the Obligated Group. These affiliates have been accounted for within the Obligated Group based upon the Alliance's original and subsequent investments, as adjusted for the Alliance's pro rata share of income or losses and any distributions, and are included as a part of equity in affiliates in the supplemental consolidating balance sheet.

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Schedules)

Years Ended June 30, 2011 and 2010

PYA

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements and Supplemental Schedules

Years Ended June 30, 2011 and 2010

PERSHING YOAKLEY & ASSOCIATES

PERSHING YOAKLEY & ASSOCIATES, P.C.
Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mountain States Health Alliance:

We have audited the accompanying consolidated balance sheets of Mountain States Health Alliance and subsidiaries (the Alliance) as of June 30, 2011 and 2010 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Alliance's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain States Health Alliance and subsidiaries as of June 30, 2011 and 2010 and the results of their operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules, as listed in the accompanying index, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

As discussed in Note B, the Alliance adopted Financial Accounting Standards Board Accounting Standards Codification 958-10, *Consolidation,* and applicable portions of 958-805, *Not-for-Profit Entities*, during 2011.

Pershing Yoakley & Associates PC

Knoxville, Tennessee
October 26, 2011

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30, 2011	June 30, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 112,768**	$ 234,526
Current portion of investments	**116,175**	25,092
Patient accounts receivable, less estimated allowances for uncollectible accounts of $53,366 in 2011 and $45,941 in 2010	**134,611**	125,580
Other receivables, net	**19,614**	17,926
Inventories and prepaid expenses	**28,965**	29,163
TOTAL CURRENT ASSETS	**412,133**	432,287
INVESTMENTS, less amounts required to meet current obligations	**581,376**	590,131
PROPERTY, PLANT AND EQUIPMENT, net	**797,418**	695,598
OTHER ASSETS		
Goodwill - Note B	**148,666**	151,352
Net deferred financing, acquisition costs and other charges, less current portion	**29,844**	30,819
Other assets	**28,448**	29,313
TOTAL OTHER ASSETS	**206,958**	211,484
	$ 1,997,885	$ 1,929,500

	June 30, 2011	2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	$ **20,047**	$ 16,039
Current portion of long-term debt and capital lease obligations	**28,162**	28,131
Current portion of estimated fair value of derivatives	**102,609**	10,740
Accounts payable and accrued expenses	**98,819**	99,227
Accrued salaries, compensated absences and amounts withheld	**57,800**	47,280
Estimated amounts due to third-party payors, net	**14,813**	10,155
TOTAL CURRENT LIABILITIES	**322,250**	211,572
OTHER LIABILITIES		
Long-term debt and capital lease obligations, less current portion	**1,040,923**	1,054,842
Estimated fair value of derivatives, less current portion	**8,123**	123,560
Deferred revenue	**19,267**	20,445
Estimated professional liability self-insurance	**9,692**	9,541
Other long-term liabilities	**14,352**	12,628
TOTAL LIABILITIES	**1,414,607**	1,432,588
COMMITMENTS AND CONTINGENCIES - Notes D, F, G, and N		
NET ASSETS		
Unrestricted net assets		
Mountain States Health Alliance	**400,395**	317,485
Noncontrolling interests in subsidiaries - Note B	**171,984**	168,359
TOTAL UNRESTRICTED NET ASSETS	**572,379**	485,844
Temporarily restricted net assets		
Mountain States Health Alliance	**10,715**	10,890
Noncontrolling interests in subsidiaries - Note B	**57**	51
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**10,772**	10,941
Permanently restricted net assets	**127**	127
TOTAL NET ASSETS	**583,278**	496,912
	$ **1,997,885**	$ 1,929,500

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations
(Dollars in Thousands)

	Year Ended June 30, 2011	2010
Revenue, gains and support:		
Net patient service revenue	$ **960,254**	$ 928,270
Other operating revenue	**15,871**	16,009
TOTAL REVENUE, GAINS AND SUPPORT	**976,125**	944,279
Expenses:		
Salaries and wages	**342,208**	325,663
Physician salaries and wages	**59,249**	54,489
Contract labor	**5,964**	6,546
Employee benefits	**67,139**	68,362
Fees	**85,919**	82,542
Supplies	**169,362**	175,469
Utilities	**17,300**	16,193
Other	**69,647**	69,154
Depreciation	**87,499**	68,436
Amortization - Note B	**2,559**	13,123
Estimated provision for bad debts	**6,174**	7,961
Interest and taxes	**44,153**	42,264
TOTAL EXPENSES	**957,173**	930,202
OPERATING INCOME	**18,952**	14,077
Nonoperating gains (losses):		
Interest and dividend income	**16,224**	17,298
Net realized gains on the sale of securities	**1,957**	2,385
Net unrealized gains on securities	**22,168**	15,018
Derivative related income	**5,072**	4,394
Loss on early extinguishment of debt - Note F	**-**	(3,029)
Change in estimated fair value of derivatives	**23,049**	(8,607)
Other nonoperating gains (losses)	**(2,653)**	512
Net assets released from restrictions used for operations	**1,893**	2,627
NET NONOPERATING GAINS	**67,710**	30,598
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ **86,662**	$ 44,675

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets
(Dollars in Thousands)

Year Ended June 30, 2011

	Mountain States Health Alliance	Noncontrolling Interests	Total
UNRESTRICTED NET ASSETS:			
Excess of Revenue, Gains and Support over Expenses and Losses	$ 83,269	$ 3,393	$ 86,662
Pension and other defined benefit plan adjustments	620	617	1,237
Cumulative effect of a change in accounting principle - Note B	(2,965)	-	(2,965)
Net assets released from restrictions used for the purchase of property, plant and equipment	1,946	-	1,946
Distributions to noncontrolling interests	-	(270)	(270)
Repurchases of noncontrolling interests and other	40	(115)	(75)
INCREASE IN UNRESTRICTED NET ASSETS	82,910	3,625	86,535
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	3,612	58	3,670
Net assets released from restrictions	(3,787)	(52)	(3,839)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(175)	6	(169)
INCREASE IN TOTAL NET ASSETS	82,735	3,631	86,366
NET ASSETS, BEGINNING OF YEAR	328,502	168,410	496,912
NET ASSETS, END OF YEAR	$ 411,237	$ 172,041	$ 583,278

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets - Continued
(Dollars in Thousands)

Year Ended June 30, 2010

	Mountain States Health Alliance	Noncontrolling Interests	Total
UNRESTRICTED NET ASSETS:			
Excess of Revenue, Gains and Support over Expenses and Losses	$ 42,372	$ 2,303	$ 44,675
Pension and other defined benefit plan adjustments	796	793	1,589
Net assets released from restrictions used for the purchase of property, plant and equipment	2,283	-	2,283
Distributions to noncontrolling interests	-	(151)	(151)
Repurchases of noncontrolling interests and other	(63)	(38)	(101)
INCREASE IN UNRESTRICTED NET ASSETS	45,388	2,907	48,295
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	3,585	88	3,673
Net assets released from restrictions	(4,825)	(85)	(4,910)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(1,240)	3	(1,237)
PERMANENTLY RESTRICTED NET ASSETS:			
Net assets released from restrictions by donor	(50)	-	(50)
INCREASE IN TOTAL NET ASSETS	44,098	2,910	47,008
NET ASSETS, BEGINNING OF YEAR	284,404	165,500	449,904
NET ASSETS, END OF YEAR	$ 328,502	$ 168,410	$ 496,912

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	**$ 86,366**	$ 47,008
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for depreciation and amortization	**90,472**	81,982
Loss on early extinguishment of debt	**-**	3,029
Cumulative effect of a change in accounting principle	**2,965**	-
Change in estimated fair value of derivatives	**(23,049)**	8,607
Equity in net income of joint ventures, net	**(898)**	(1,117)
Gain on sale of assets held for resale and disposal of assets	**(367)**	(548)
Amounts received on interest rate swap settlements	**(5,072)**	(4,394)
Income recognized through forward sale agreements	**(864)**	(864)
Capital Appreciation Bond accretion and other	**2,738**	2,071
Restricted contributions	**(3,670)**	(2,159)
Pension and other defined benefit plan adjustments	**(1,237)**	598
Increase (decrease) in cash due to change in:		
Net patient accounts receivable	**(9,031)**	3,232
Other receivables	**(2,802)**	(1,246)
Inventories and prepaid expenses	**(643)**	(4,640)
Trading securities	**(123,966)**	(13,368)
Other assets	**(3,632)**	(1,159)
Accrued interest payable	**4,008**	3,989
Accounts payable and accrued expenses	**2,741**	(855)
Accrued salaries, compensated absences and amounts withheld	**11,361**	(2,289)
Estimated amounts due from/to third-party payors, net	**4,658**	3,757
Other long-term liabilities	**2,961**	(201)
Estimated professional liability self-insurance	**151**	(471)
Total adjustments	**(53,176)**	73,954
NET CASH PROVIDED BY OPERATING ACTIVITIES	**33,190**	120,962
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment, property held for resale and property held for expansion, net	**(172,786)**	(172,240)
Additions to goodwill	**(279)**	-
Net decrease in assets limited as to use	**81,383**	50,362
Purchases of held-to-maturity securities	**(41,060)**	(28,175)
Net distribution from joint ventures and unconsolidated affiliates	**1,057**	1,162
Proceeds from sale of property, plant and equipment and property held for resale	**812**	9,565
NET CASH USED IN INVESTING ACTIVITIES	**(130,873)**	(139,326)

	Year Ended June 30, 2011		2010
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on long-term debt and capital lease obligations, including deposits to escrow	**(37,735)**		(226,315)
Payment of acquisition and financing costs	**(1,716)**		(3,565)
Proceeds from issuance of long-term debt and other financing arrangements	**5,954**		235,158
Net amounts received on interest rate swap settlements	**5,072**		4,394
Restricted contributions received	**4,350**		3,382
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**(24,075)**		13,054
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(121,758)**		(5,310)
CASH AND CASH EQUIVALENTS, beginning of year	**234,526**		239,836
CASH AND CASH EQUIVALENTS, end of year	**$ 112,768**	$	234,526

	2011		2010
SUPPLEMENTAL INFORMATION AND NON-CASH TRANSACTIONS:			
Cash paid for interest	**$ 39,507**	$	38,666
Cash paid for federal and state income taxes	**$ 739**	$	446
Construction related payables in accounts payable and accrued expenses	**$ 11,384**	$	14,847
Property purchased through capital lease arrangement	**$ 15,951**	$	-
Increase in receivable from sale of property	**$ -**	$	1,483
Decrease in land held for expansion related to property exchange transaction	**$ -**	$	3,432
Land held for expansion placed in use	**$ 4,904**	$	-

During the year ended June 30, 2010, the Alliance refinanced previously issued debt of $184,050.

NOTE A--ORGANIZATION AND OPERATIONS

Mountain States Health Alliance (the Alliance) is a tax-exempt entity with operations primarily located in Washington, Sullivan, and Carter counties of Tennessee and Smyth, Wise, Dickenson, Russell and Washington counties of Virginia. The initial funds for the establishment of the Alliance in 1945 were provided by individuals and various institutions. Membership of the Alliance consists of individuals and institutions who have contributed at least $100 to the capital fund of the Alliance and are entitled to vote at the annual election of the Board of Directors.

The primary operations of the Alliance consist of ten acute and specialty care hospitals, as follows:

- Johnson City Medical Center (JCMC) - licensed for 658 beds
- Smyth County Community Hospital (SCCH) - licensed for 279 beds
- Indian Path Medical Center (IPMC) - licensed for 261 beds
- Norton Community Hospital (NCH) - licensed for 129 beds
- Sycamore Shoals Hospital (SSH) - licensed for 121 beds
- Johnston Memorial Hospital (JMH) - licensed for 116 beds
- Franklin Woods Community Hospital (FWCH) - licensed for 80 beds
- Russell County Medical Center (RCMC) - licensed for 78 beds
- Dickenson Community Hospital (DCH) - licensed for 25 beds
- Johnson County Community Hospital (JCCH) - licensed for 2 beds

FWCH opened in July 2010, replacing operations at North Side Hospital (NSH) and Johnson City Specialty Hospital (JCSH). NSH and JCSH were licensed for 91 beds and 23 beds, respectively, prior to the opening of FWCH and a total of 64 beds were transferred within the Alliance.

The Alliance has a 50.1% interest in JMH. JMH is also the sole member of Abingdon Physician Partners (APP), a non-taxable corporation that owns and manages physician practices.

The Alliance has a 50.1% interest in NCH. NCH is also the sole member or shareholder of DCH and Norton Community Physician Services, LLC (NCPS), a taxable corporation that consists of physician practices and a pharmacy and; Community Home Care (CHC), a taxable corporation that provides home medical equipment.

The Alliance has an 80% interest in SCCH. SCCH is the sole shareholder of Southwest Community Health Services, Inc. (SWCH), a taxable entity that operates a pharmacy and provides other health services.

The activities and accounts of JMH, NCH and SCCH are included in the accompanying consolidated financial statements.

NOTE A--ORGANIZATION AND OPERATIONS - Continued

The Alliance is the sole shareholder of Blue Ridge Medical Management Corporation (BRMM), a for-profit entity that owns and manages physician practices and provides other healthcare services to patients in Tennessee and Virginia. BRMM also operates as a medical office real estate developer by owning, selling and leasing real estate to physician practices and other entities. BRMM is either the sole shareholder, a significant shareholder, or member of the following organizations:

Mountain States Physician Group, Inc. (MSPG): A company that contracts with physicians to provide services to BRMM physician practices.

Mountain States Properties, Inc. (MSPI): An entity that owns and manages certain real estate (primarily medical office buildings) and provides rehabilitation and fitness services. In addition, MSPI is a counter-party to various financing transactions, including interest rate swaps.

Mediserve Medical Equipment of Kingsport, Inc. (Mediserve): A company that provides durable medical equipment services.

Synergy Health Group LLC: An affiliation of member hospitals that work together to maximize cost savings opportunities through aggregated buying power.

Kingsport Ambulatory Surgery Center (KASC) (d.b.a. Kingsport Day Surgery): A joint venture operating as an outpatient surgery center which performs procedures primarily in otolaryngology, orthopedics, ophthalmology, and general surgery. BRMM has a 43% ownership of KASC at June 30, 2011 and 2010; however, BRMM maintains control over KASC through a management agreement. As such, the accounts and activities of KASC are included in the accompanying consolidated financial statements.

Piney Flats Urgent Care (PFUC): A for-profit entity that provides urgent care patient services. BRMM has a 75% ownership of PFUC. The accounts and activities of PFUC are included in the accompanying consolidated financial statements.

The Alliance is the primary beneficiary of the activities of Mountain States Foundation, Inc. (MSF), a not-for-profit foundation formed to coordinate fundraising and development activities of the Alliance. The Alliance is also the beneficiary of the Mountain States Health Alliance Auxiliary (Auxiliary), a not-for-profit organization formed to coordinate volunteer activities of the Alliance. The activities and accounts of MSF and the Auxiliary are included in the accompanying consolidated financial statements.

The Alliance is a majority shareholder of Integrated Solutions Health Network, LLC (ISHN). The primary function of ISHN is to establish, operate and administer a provider-sponsored health care

NOTE A--ORGANIZATION AND OPERATIONS - Continued

delivery network. The accounts and activities of ISHN are included in the accompanying consolidated financial statements.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Alliance and its subsidiaries after elimination of all significant intercompany accounts and transactions. The Alliance classifies those activities directly associated with its mission of providing healthcare services, as well as other activities deemed significant to its operations, as operating activities.

Noncontrolling Interests in Subsidiaries: Noncontrolling interests represent the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent organization. Effective July 1, 2010, the Alliance adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-810, *Consolidation.* ASC 958-810 amends the accounting for, and the financial statement presentation of, noncontrolling interests in a subsidiary within consolidated financial statements. ASC 958-810 requires that a noncontrolling interest in the net assets of a subsidiary be accounted for and reported as net assets and provides revised guidance on the treatment of income and losses attributable to the noncontrolling interest and changes in ownership interests in a subsidiary.

The Alliance adopted ASC 958-810 during 2011 and reclassified $168,410 of noncontrolling interests from minority interest to net assets as of June 30, 2010. These amounts are reflected net of distributions and pension and other defined benefit plan adjustments within net assets in the Consolidated Balance Sheets. The Alliance attributed an Excess of Revenue, Gains and Support over Expenses and Losses of $3,393 and $2,303 for the years ending June 30, 2011 and 2010, respectively, to the noncontrolling interests in JMH, NCH, SCCH, KASC, PFUC and ISHN based on the noncontrolling interests' respective ownership percentage. None of the noncontrolling interests include redemption features.

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents: Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents designated as assets

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

limited as to use or uninvested amounts included in investment portfolios are not included as cash and cash equivalents on the Consolidated Balance Sheets.

Investments: Investments as reported in the Consolidated Balance Sheets include trading securities, held-to-maturity securities and assets limited as to use (Note C). FASB ASC 958-320, *Investments – Debt and Equity Securities*, allows not-for-profit organizations to report in a manner similar to business entities by identifying securities as available-for-sale or held-to-maturity and to exclude the unrealized gains and losses on those securities from the Performance Indicator (as defined below). Investments which the Alliance has the positive intent and ability to hold to maturity are considered as held-to-maturity. Substantially all other investments (including assets limited as to use) are considered as trading securities. Management annually evaluates the held-to-maturity investment portfolio and recognizes any "other-than-temporary" losses as deductions from the Performance Indicator. Management's evaluation considers the amount of decline in fair value, as well as the time period of any such decline. Management does not believe any investment classified as held-to-maturity is other-than-temporarily impaired at June 30, 2011.

Within the trading securities portfolio, all debt securities and marketable equity securities with readily determinable fair values are reported at fair value based on quoted market prices. Investments without readily determinable fair values are reported at estimated fair market value pursuant to FASB ASC 825, *Financial Instruments*. Guaranteed investment contracts are reported at contract value.

Realized gains and losses on trading securities and assets limited as to use are computed using the specific identification method for cost determination. Interest and dividend income is reported net of related investment fees.

Investments in joint ventures are reported under the equity method of accounting, which approximates the Alliance's equity in the underlying net book value, unless the ownership structure requires consolidation. Other assets include investments in joint ventures of $2,367 and $2,418 at June 30, 2011 and 2010, respectively.

Inventories: Inventories, consisting primarily of medical supplies, are stated at the lower of cost or market.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost, or if donated, at the fair value at the date of gift. Generally, depreciation is computed by the straight-line method over the estimated useful life of the asset. Equipment held under capital lease obligations is amortized under the straight-line method over the shorter of the lease term or estimated useful life.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Amortization of building and equipment held under capital lease is shown as a part of depreciation expense and accumulated depreciation in the accompanying consolidated financial statements.

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The amount capitalized is net of investment earnings on assets limited as to use derived from borrowings designated for capital assets. Renewals and betterments are capitalized and depreciated over their useful life, whereas costs of maintenance and repairs are expensed as incurred.

The Alliance reviews capital assets for indications of potential impairment when there are changes in circumstances related to a specific asset. If this review indicates that the carrying value of these assets may not be recoverable, the Alliance estimates future cash flows from operations and the eventual disposition of such assets. If the sum of these undiscounted future cash flows is less than the carrying amount of the asset, a write-down to estimated fair value is recorded. The Alliance did not recognize any impairment losses during 2011 and 2010.

Other assets include property held for resale and property held for expansion of $4,230 and $9,135, respectively, at June 30, 2011 and 2010. During 2011, property held for expansion totaling approximately $4,905 was transferred to property, plant and equipment in conjunction with the construction of FWCH. Property held for resale and property held for expansion primarily represent land contributed to, or purchased by, the Alliance plus costs incurred to develop the infrastructure of such land. Management annually evaluates its investment and records non-temporary declines in value when it is determined the ultimate net realizable value is less than the recorded amount. No such declines were identified in 2011 and 2010.

Goodwill: Goodwill represents the difference between the acquisition cost of assets and the estimated fair value of net tangible and any separately identified intangible assets. Prior to July 1, 2010, the Alliance amortized goodwill associated with its not-for-profit subsidiaries under the straight-line method over various estimated useful lives ranging from 10 to 25 years. However, effective July 1, 2010, ASC 958-805, *Not-for-Profit Entities*, requires the not-for-profit entities within the Alliance to cease amortization of goodwill, perform a transitional impairment test and perform annual impairment testing in the future.

As a result of its transitional impairment testing as of July 1, 2010, management determined that approximately $2,965 of goodwill associated with one of its reporting units was impaired, and such impairment has been reflected as the Cumulative Effect of a Change in Accounting Principle in the 2011 Consolidated Statement of Changes in Net Assets. Based upon this transitional testing, management does not believe any remaining goodwill acquired by its not-for-profit entities to be

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

impaired. The reporting unit for evaluation of substantially all such goodwill is the Alliance's aggregate acute-care operations.

For goodwill acquired by its for-profit subsidiaries, the Alliance does not amortize goodwill and annually performs impairment testing. Based upon this annual impairment testing, management has determined that there is no impairment related to goodwill associated with its for-profit subsidiaries.

Deferred Financing, Acquisition Costs and Other Charges: Other assets, including deferred financing, acquisition costs and other charges, total $29,844 and $30,819 at June 30, 2011 and 2010, respectively. Deferred financing costs are amortized over the life of the respective bond issue principally using the average bonds outstanding method. Other intangible assets include licenses and similar assets and are being amortized over the intangible's estimated useful life under the straight-line method.

Prior to 2009, the Alliance routinely financed interest rate swap and other derivative transaction issuance costs through modification of future settlement terms. As such, the unamortized issuance costs of these derivatives are included as deferred financing costs in the accompanying Consolidated Balance Sheets and are being amortized over the term of the respective derivative instrument. The unpaid issuance costs are included as a part of the estimated fair value of derivatives in the accompanying Consolidated Balance Sheets. Beginning in 2009, interest rate swap and derivative transaction issuance costs are expensed as incurred.

Derivative Financial Instruments: As further described in Note D, the Alliance is a party to interest rate swap and other derivative agreements. These financial instruments are not designated as hedges and have been presented at estimated fair market value in the accompanying Consolidated Balance Sheets as either current or long-term liabilities, based upon the remaining term of the instrument. Changes in the estimated fair value of these derivatives are included in the Consolidated Statements of Operations as part of nonoperating gains (losses). Net settlements and other related income of derivatives are also reflected as a part of the Performance Indicator (described below).

These fair values are based on the estimated amount the Alliance would receive, or be required to pay, to enter into equivalent agreements at the valuation date. The fair value of various derivatives are netted on the Consolidated Balance Sheets based on management's evaluation of the settlement provisions in the master contract. Gross positions of these derivatives are disclosed in Note D. Due to the nature of these financial instruments, such estimates of fair value are subject to significant change in the near term.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Self-insurance liabilities include estimated reserves for reported and unreported professional liability claims (Note G) and are recorded at the estimated net present value of such claims. Other long-term liabilities include contributions payable and obligations under deferred compensation arrangements, a defined

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

benefit pension plan, a post-retirement employee benefit plan as well as other liabilities which management estimates are not payable within one year.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts, 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 Alliance's revenue recognition policies related to self-pay and other types of payors emphasize revenue recognition only when collections are reasonably assured.

Patient accounts receivable are reported net of both an estimated allowance for uncollectible accounts and an estimated allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid, TennCare and other third-party payment programs. Current operations include a provision for bad debts in the Consolidated Statements of Operations estimated based upon the age of the patient accounts receivable, prior experience and any unusual circumstances (such as local, regional or national economic conditions) which affect the collectibility of receivables, including management's assumptions about conditions it expects to exist and courses of action it expects to take.

The Alliance's policy does not require collateral or other security for patient accounts receivable. The Alliance routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Charity Care: The Alliance accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Alliance and various guidelines outlined by the Federal Government. These policies define charity as those services for which no payment is anticipated and, as such, charges at established rates are not included in net patient service revenue.

In addition to the charity care services described above, the Alliance provides a number of other services to benefit the poor for which little or no payment is received. Medicare, Medicaid, TennCare and State indigent programs do not cover the full cost of providing care to beneficiaries of those programs. The Alliance also provides services to the community at large for which it receives little or no payment.

Excess of Revenue, Gains and Support Over Expenses and Losses: The Consolidated Statements of Operations and the Consolidated Statements of Changes in Net Assets includes the caption *Excess of*

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue, Gains and Support Over Expenses and Losses (the Performance Indicator). Changes in unrestricted net assets which are excluded from the Performance Indicator, consistent with industry practice, include contributions of long-lived assets or amounts restricted to the purchase of long-lived assets, pension and related adjustments, and distributions to, or contributions from, owners and transactions with noncontrolling interests.

Income Taxes: The Alliance is classified as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been made in the accompanying consolidated financial statements for the Alliance and its tax-exempt subsidiaries. Taxable entities account for income taxes in accordance with FASB ASC 740, *Income Taxes* (Note L). The Alliance has no significant uncertain tax positions at June 30, 2011 and 2010.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor or time restriction expires; that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Consolidated Statements of Operations and Consolidated Statements of Changes in Net Assets as net assets released from restrictions. Permanently restricted net assets have been restricted by donors to be maintained by the Alliance in perpetuity.

Fair Value Measurement: The Alliance had previously adopted FASB ASC 820, *Fair Value Measurements and Disclosures,* which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements.

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 requires new disclosures regarding significant transfers in and out of Levels 1 and 2, as well as information about activity in Level 3 fair value measurements, including presenting information about purchases, sales, issuances and settlements on a gross versus a net basis in the Level 3 activity roll forward. In addition, ASU 2010-06 clarifies existing disclosures regarding input and valuation techniques, as well as the level of disaggregation for each class of assets and liabilities. The Alliance adopted ASU 2010-06 in 2011, except for the disclosures related to purchases, sales, issuance and settlements, which will be effective for the Alliance beginning July 1, 2012. The adoption of ASU 2010-06 did not, and is not expected to, have an impact on the Alliance's consolidated financial statements.

Subsequent Events: The Alliance evaluated all events or transactions that occurred after June 30, 2011, through October 26, 2011, the date the consolidated financial statements were available to be

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

issued. During this period management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2011 consolidated financial statements, other than as discussed in Notes D, F and S.

New Accounting Pronouncements: In August 2010, the FASB issued Accounting Standards Update (ASU) 2010-23, *Health Care Entities – Measuring Charity Care for Disclosure.* ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost, identified as the direct and indirect costs of providing the charity care, be used as the measurement basis for disclosure purposes. ASU 2010-23 also requires disclosure of the method used to identify or determine such costs. The Hospital will adopt ASU 2010-23 in fiscal year 2012. Management does not expect the adoption of ASU 2010-23 to have a material impact on the consolidated financial statements.

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities – Presentation of Insurance Claims and Related Insurance Recoveries.* The amendments in the ASU clarify that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. ASU 2010-24 is effective for the Alliance beginning July 1, 2011 and management is currently evaluating the impact of this ASU on the consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07, *Healthcare Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Healthcare Entities*, which will require certain healthcare entities to reclassify the provision for bad debts associated with providing patient care from an operating expense to a deduction from net patient service revenue in the Consolidated Statements of Operations. Additionally, ASU 2011-07 requires enhanced disclosures about an entity's policies for recognizing revenue and assessing bad debts and qualitative and quantitative information about changes in the allowance for doubtful accounts. The Alliance intends to adopt ASU 2011-07 in fiscal year 2013. Management does not expect the adoption of ASU 2011-07 to have a material impact on the consolidated financial statements.

Reclassifications: Certain 2010 amounts have been reclassified to conform with the 2011 presentation in the accompanying consolidated financial statements.

NOTE C--INVESTMENTS

Assets limited as to use are summarized by designation or restriction as follows at June 30:

(Dollars in Thousands)

NOTE C--INVESTMENTS - Continued

	2011	2010
Designated or restricted:		
Under safekeeping agreements	$ 28,349	$ 52,050
Under guarantee agreements	92,720	89,486
By Board for capital improvements	4	2,776
Under bond indenture agreements:		
For debt service and interest payments	67,874	78,612
For capital acquisitions	28,835	76,241
	217,782	299,165
Less: amount required to meet current obligations	(116,175)	(25,092)
	$ 101,607	$ 274,073

Assets limited as to use consist of the following at June 30:

	2011	2010
Cash, cash equivalents and money market funds	$ 115,579	$ 170,897
U.S. Government securities	1,795	1,795
U.S. Agency securities	7,688	12,319
Guaranteed investment contracts	92,720	114,154
	$ 217,782	$ 299,165

Trading securities consist of the following at June 30:

	2011	2010
Cash, cash equivalents and money market funds	$ 29,159	$ 4,799
U.S. Government securities	9,409	3,137
U.S. Agency securities	31,551	13,760
Corporate and foreign bonds	126,543	11,688
Municipal obligations	451	1,461
Preferred and asset backed securities	8,945	7,023
U.S. equity securities	94,834	139,168
Other	32,718	28,608
	$ 333,610	$ 209,644

(Dollars in Thousands)

NOTE C--INVESTMENTS - Continued

Held-to-Maturity securities are carried at amortized cost and consist of the following at June 30:

	2011	*2010*
Cash, cash equivalents and money market funds	$ 753	$ 1,131
Corporate and foreign bonds	135,745	103,968
Municipal obligations	9,661	1,315
	$ 146,159	$ 106,414

Held-to-maturity securities had gross unrealized gains and losses of $6,838 and $276, respectively, at June 30, 2011 and $5,525 and $607, respectively at June 30, 2010. At June 30, 2011, the Alliance held nine securities within the held-to-maturity portfolio with a fair value and unrealized loss of $549 and $44, respectively, which had been at an unrealized loss position for over one year. At June 30, 2010, the Alliance held one security within the held-to-maturity portfolio with a fair value and unrealized loss of $591 and $166, respectively, which had been at an unrealized loss position for over one year. At June 30, 2011, the contractual maturities of held-to-maturity securities were $13,816 due in one year or less, $55,563 due from one to five years and $76,780 due after five years. At June 30, 2010, the contractual maturities of held-to-maturity securities were $13,389 due in one year or less, $48,447 due from one to five years and $44,578 due after five years.

At June 30, 2011 and 2010, the Alliance held investments in certain limited partnerships and hedge funds of $32,718 and $28,608, respectively, that have a wide range of investment strategies with various levels of risk. These funds are included within trading securities and do not have readily determinable fair values. The funds are reported at estimated fair market value pursuant to FASB ASC 825, *Financial Instruments*.

The Alliance has investments in several joint ventures and corporations which are accounted for under the equity method of accounting.

As a part of the acquisition of membership interests in JMH, SCCH and NCH, the Alliance has committed to invest $132,000, $48,100, and $45,000, respectively. Cumulative amounts expended at June 30, 2011 under these commitments are approximately $150,184.

NOTE D--DERIVATIVE TRANSACTIONS

The Alliance is a party to a number of derivative transactions. These derivatives have not been designated as hedges and are valued at estimated fair value in the accompanying Consolidated Balance Sheets. Management's primary objective in holding such derivatives is to introduce a variable rate component into its fixed rate debt structure. Under the terms of these agreements, changes in the interest rate environment could have a significant effect on the Alliance.

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS - Continued

These derivative agreements require that the Alliance post additional collateral for the derivatives' fair market value deficits above specified levels. Such investments are included as assets limited as to use. As of June 30, 2011, management believes the Alliance was fully collateralized with respect to the derivative agreements and management does not believe such collateral is exposed to third-party credit risk. Further, certain of the agreements contain requirements regarding maintenance of financial and liquidity ratios. Management has represented the Alliance is in compliance with all such covenants at June 30, 2011.

Interest Rate Swaps: The Alliance is a party to six interest rate swap agreements with Merrill Lynch as the counterparty. The terms of five of these agreements were modified without settlement during 2011 and no gain or loss was realized. However, such modifications did impact the estimated fair value of these interest rate swaps. A liability, representing the estimated net fair value of these swaps, of $8,123 and $33,910 was recognized by the Alliance as of June 30, 2011 and 2010, respectively.

The following is a summary of five of these interest rate swap agreements at June 30, 2011:

			Payments by:		
Swap	*Notional Amount*	*Term*	*Counterparty*	*Alliance*	*Estimated Fair Value*
A	$ 170,000	4/2008-4/2026	1.265% through April 2013; 1.07% through April 2014; then 71.10% of USD-ISDA Swap Rate	0.00% through April 2014, then USD-SIFMA Municipal Swap Index	$ 3,028
B	95,000	4/2008-4/2026	1.265% through April 2013; 1.08% through April 2014; then 71.18% of USD-ISDA Swap Rate	0.00% through April 2014, then USD-SIFMA Municipal Swap Index	1,729
C	173,030	4/2008-4/2034	1.315% through April 2013; 1.12% through April 2014; then 72.35% of USD-ISDA Swap Rate	0.00% through April 2014, then USD-SIFMA Municipal Swap Index	741
D	82,055	12/2007-7/2033	1) 3.493% through July 2012; then 0% 2) USD-LIBOR-BBA through July 2012, then 67% USD-LIBOR-BBA	1) 4.41% through July 2012; then .312% 2) USD-SIFMA	(9,363)
E	50,000	2/2008-7/2038	67.00% of USD-LIBOR-BBA plus .145%	USD-SIFMA	(3,918)

Deferred financing and acquisition costs, net of amortization, include $6,480 and $6,823 at June 30, 2011 and 2010, respectively, related to these swaps.

NOTE D--DERIVATIVE TRANSACTIONS - Continued

In addition to the swaps described above, the Alliance and Merrill Lynch are also parties to a total return swap in the notional amount of $23,100 which has an estimated fair value of $(340) and $(252) at June 30, 2011 and 2010, respectively . The agreement consists of the following:

- An agreement that requires the Alliance to pay a variable rate of USD-SIFMA Municipal Swap Index through July 1, 2012 (or termination of the swap) on a notional amount equal to the outstanding 2001A Hospital Revenue and Improvement Bonds (the 2001A Reference Bonds). The Alliance receives a fixed rate of 6.25% of the outstanding 2001A Reference Bonds.

- A "total return provision" under which the Alliance will pay (or receive) an amount equal to the product of the outstanding 2001A Reference Bonds multiplied by the difference between the outstanding 2001A Reference Bonds and the 2001A Reference Bonds' market price at termination, as defined in the agreement. In the event the swap does not terminate prior to July 1, 2012, there would be no settlement of this component as there would be no outstanding 2001A Reference Bonds.

The Alliance is also party to a total return swap with Lehman Brothers as the counterparty. Lehman Brothers filed for bankruptcy in September 2008. The Alliance subsequently received notification from Lehman Brothers Special Financing, Inc. indicating the intent of the counterparty to terminate this agreement effective January 1, 2009. The Alliance and Lehman Brothers Special Financing, Inc. have been unable to reach a settlement agreement. In September 2010, the Alliance was issued a subpoena to furnish certain documentation related to the transaction. A protocol has been put into place by the bankruptcy court whereby the parties are to undergo alternate dispute resolution, including non-binding arbitration, which management anticipates will occur in 2012.

The fair value of these swaps is undeterminable at January 1, 2009, as prior to the termination date Lehman Brothers liquidated the underlying referenced securities, making a valuation not commercially viable. An estimated liability of $10,565 and $10,740 was recognized by the Alliance as of June 30, 2011 and 2010, respectively. Management believes that the liability as recorded at June 30, 2011 is sufficient to cover any exposure arising from litigation in this matter. However, it is reasonably possible management's estimate may change in the near term, although the amount of any change cannot be estimated. Due to the termination of this agreement, the estimated liability is included as a current liability in the accompanying Consolidated Balance Sheets.

A third party holds collateral with a fair market value of approximately $13,381 and $13,570, respectively, at June 30, 2011 and 2010, with respect to these Lehman derivative agreements. Such collateral is included as current assets limited as to use.

NOTE D--DERIVATIVE TRANSACTIONS - Continued

The arrangement consists of nine agreements each with three separate components (described below) with notional values of $23,600, $8,000, and $8,750 each. The swaps generally consist of the following:

- An arrangement that calls for the Alliance to pay a variable rate (SIFMA Municipal Swap Index) plus certain fixed payment amounts and receive a payment equal to the interest paid by the Alliance on a portion of its early extinguished, but still outstanding, 2000A and 2000B Hospital Mortgage Revenue Refunding Bonds (the Reference Bonds) (whose fixed rates range from 7.50% to 7.75%).

- An arrangement that requires the Alliance to pay a fixed rate of 4.211% through either July 1, 2025, 2029 or 2033 (or termination of the swap) on the outstanding Reference Bonds and receive a variable rate of 67% of USD-LIBOR-BBA on the outstanding Reference Bonds; and

- A "total return provision" under which the Alliance will pay (or receive) the difference between the outstanding Reference Bonds, multiplied by 132%, less the fair value of the Reference Bonds on the date of termination and any fixed interest payments made under the arrangements described above. In the event the swaps do not terminate prior to their stated termination dates (2025, 2029 or 2033), there would be no settlement of this component as there would be no outstanding Reference Bonds.

The swap also contains an agreement that consists of two separate components:

- An arrangement that requires the Alliance to pay a fixed rate of 2.98% through July 1, 2016 (or termination of the swap) on the outstanding, but previously defeased, 1991 Hospital Revenue and Improvement Bonds (the 1991 Reference Bonds) and receive a variable rate of 67% of USD-LIBOR-BBA on the outstanding 1991 Reference Bonds; and

- A "fixed payor provision" under which the Alliance will pay (or receive) the difference between the outstanding 1991 Reference Bonds multiplied by 100% and any fixed interest payments made as required under the agreement minus the outstanding 1991 Reference Bonds multiplied by the average market price at termination. In the event the swaps do not terminate prior to their stated termination date (2016), there would be no settlement of this component as there would be no outstanding 1991 Reference Bonds.

Interest Rate Swap Option: In June 2004, the Alliance entered into an agreement with Bear Stearns (acquired by JP Morgan) whereby Bear Stearns has purchased from the Alliance an option to enter

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS - Continued

into an interest rate swap agreement (swaption) with the Alliance on July 1, 2011, which is an optional redemption date related to the Alliance's early extinguished 2000A and 2000B Bonds (Note F). The purpose of this agreement was to effectively sell the call features related to the early extinguished Series 2000A and 2000B Bonds. As consideration under this agreement, the Alliance received a total of $42,500 in upfront payments as the swaption premium. Such amounts were initially recorded as estimated fair value of derivatives in the Consolidated Balance Sheets. Beginning 30 calendar days prior to July 1, 2011 and terminating 30 calendar days prior to July 1, 2015, the counterparty has the periodic right to exercise the swaption.

The underlying interest rate swap transactions to which the swaption transaction relates have the following terms:

	Notional		*Payments by:*	
Swap	*Amount*	*Term*	*Counterparty*	*Alliance*
2000A	Ranging from $148,170 through July 1, 2018 to $23,000 through July 2033	30 days following the exercise date through July 2033	64% of USD-LIBOR-BBA	Fixed amounts ranging from 7.13% upon execution to 7.50% through July 2033, based on notional amount
2000B	Ranging from $76,240 through July 1, 2021 to $8,800 through July 2033	30 days following the exercise date through July 2033	64% of USD-LIBOR-BBA	Fixed amounts ranging from 7.54% upon execution to 8.00% through July 2033, based on notional amount

The Alliance retained the right to terminate the swaption at any time prior to May 17, 2011 at its fair market value. A liability of $92,044 and $89,650, representing the estimated fair value of the swaption at June 30, 2011 and 2010, respectively, is included in estimated fair value of derivatives in the accompanying Consolidated Balance Sheets. As a derivative financial instrument, this swaption is extremely sensitive to changes in long-term interest rates and other elements in the financial marketplace. As such, estimates of fair value are subject to significant changes in the near term.

Deferred financing and acquisition costs include $0 and $434 at June 30, 2011 and 2010, respectively, related to the costs of this transaction. The change in estimated fair value of derivatives in the accompanying Statements of Operations for 2011 and 2010 includes an unrealized loss of $2,394 and $11,628, respectively, related to this derivative.

The interest rate swap option, described above, was terminated on October 13, 2011. To effectuate this termination, the Alliance transferred a portion of a Guaranteed Investment Contract (GIC), described below, to the third party as a termination payment. A gain of approximately $3,000 was recognized on this termination.

NOTE D--DERIVATIVE TRANSACTIONS - Continued

Forward Sale Agreements: In June 2004, the Alliance entered into two related forward sale agreements with the counterparty to the swaption agreements and the Master Trustee of the Series 2000 Bonds. The forward sale agreements originally related to the Debt Service Reserve Fund and to the Debt Service Fund, respectively, (collectively, the "Funds"), as established under provisions of the Master Trust Indenture related to the issuance of the Series 2000 Bonds. In consideration of the future earnings on the Funds, the counterparty paid the Master Trustee a total of $30,000 during 2005, to be held on behalf of the Alliance. In June 2006, one of these agreements was amended to also relate to the Series 2000C, 2000D, 2006A and 2006B Bonds, and to remove the Series 2000A Bonds from consideration under the agreement. As the original intent of these Funds was to secure debt service payments under the above referenced Bonds, the agreement requires these funds to be held under a guaranty agreement as further described below.

In connection with the issuance of the Series 2007 Bonds and the derecognition of a portion of the Series 2000A Bonds, all of the outstanding Series 2000B Bonds, and all of the outstanding 2006B Bonds (Note F), one of these agreements as it relates to the Series 2000A and 2000B Bonds was partially terminated. As such, during 2008 the Alliance reduced its liability with respect to the portion related to the Series 2000A and 2000B Bonds, and paid the counterparty $6,186 under the terms of the agreement. The agreement was amended in fiscal year 2011 to include the Series 2010A Bonds and to remove the Series 2000B and 2006B Bonds.

A liability of $19,001 and $19,864 representing the unamortized payments from the counterparty is included as part of deferred revenue in the accompanying Consolidated Balance Sheets as of June 30, 2011 and 2010, respectively. Amounts are being recognized as investment income over the life of the agreements.

Pursuant to these agreements, the counterparty required that the Alliance's obligations under the swaption and forward sale agreements be collateralized under a guarantee agreement in favor of the counterparty. Due to various requirements of the Master Trust Indenture, the Alliance transferred to MSF a total of $42,500 that was in turn deposited with the counterparty as collateral in a GIC. Amounts received under the forward sale agreements were also deposited into the GIC. All GIC deposits earn interest compounded at 4.14% for the first year, and at 3.5% thereafter through July 1, 2011. The GIC deposits as of June 30, 2011 and 2010 totaled $92,720 and $89,486, respectively. The GIC was substantially utilized on October 13, 2011 to terminate the interest rate swap option agreement discussed above and, as such, is included in the current portion of assets whose use is limited in the Consolidated Balance Sheet at June 30, 2011.

NOTE E--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30:

(Dollars in Thousands)

NOTE E--PROPERTY, PLANT AND EQUIPMENT - Continued

	2011	2010
Land	$ 63,749	$ 58,037
Buildings and leasehold improvements	454,852	407,104
Property and improvements held for leasing	80,568	84,421
Equipment	532,767	479,523
Buildings and equipment held under capital lease	42,720	22,679
	1,174,656	1,051,764
Less: Allowances for depreciation and amortization	(586,471)	(569,913)
	588,185	481,851
Construction in progress (Note N)	209,233	213,747
	$ 797,418	$ 695,598

Accumulated depreciation and amortization on property and improvements held for leasing purposes is $23,348 and $21,543 at June 30, 2011 and 2010, respectively. Net interest capitalized was $10,640 and $11,117 for the years ended June 30, 2011 and 2010, respectively.

The Alliance is constructing replacement facilities for SCCH and JMH and is also performing various renovations on existing hospital facilities. During 2011 and 2010, management of the Alliance assessed the planned current and future use of the existing NSH, SCCH and JMH facilities as well as certain other facilities, and adjusted their estimated useful lives accordingly.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt and capital lease obligations consist of the following at June 30:

			Outstanding Balance	
Description	Maturities	Rates	2011	2010
2010A Hospital Revenue Bonds, net of unamortized premium of $1,056 and $1,096 at June 30, 2011 and 2010, respectively	$38,660 uninsured serially, through 2020 $14,985 uninsured term bonds, due July 1, 2025 $19,385 uninsured term bonds, due July 1, 2030 $39,570 uninsured term bonds, due July 1, 2038 $55,480 uninsured term bonds, due July 1, 2038	3.00% to 5.00% 5.38% 5.63% 6.50% 6.00%	$ 169,137	$ 169,176
2010B Hospital Revenue Bonds, net of unamortized premium of $711 and $753 at June 30, 2011 and 2010, respectively	$27,330 uninsured serially, through 2020 $4,355 uninsured term bonds, due July 1, 2023 $4,250 uninsured term bonds, due July 1, 2028	2.50% to 5.00% 5.00% 5.50%	36,646	36,688
2009A Hospital Revenue Bonds, net of unamortized discount of $121 and $126 at June 30, 2011 and 2010, respectively	$725 uninsured term bonds, due July 1, 2019 $1,730 uninsured term bonds, due July 1, 2029 $3,105 uninsured term bonds, due July 1, 2038	7.25% 7.50% 7.75%	5,439	5,434

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Description	Maturities	Rates	Outstanding Balance 2011	Outstanding Balance 2010
2009B Hospital Revenue Bonds	$5,535 uninsured term bonds, due July 1, 2038	8.00%	5,535	5,535
2009C Hospital Revenue Bonds, net of unamortized discount of $2,421 and $2,508 at June 30, 2011 and 2010, respectively	$21,100 uninsured term bonds, due July 1, 2019 $20,000 uninsured term bonds, due July 1, 2029 $74,855 uninsured term bonds, due July 1, 2038	7.25% 7.50% 7.75%	113,534	113,447
2008A Hospital Revenue Bonds	$13,245 uninsured term bonds, due July 1, 2038, subject to early redemption or tender	Variable, 0.07% at June 30, 2011	13,245	13,245
2008B Hospital Revenue Bonds	$53,855 uninsured term bonds, due July 1, 2038, subject to early redemption or tender	Variable, 0.07% at June 30, 2011	53,855	54,050
2007A Hospital Revenue Bonds	Uninsured term bonds, due July 1, 2038, redeemed in 2011	NA	-	4,305
2007B Taxable Hospital Revenue Bonds, bifurcated into sub-series B-1, B-2 and B-3 during 2011	$307,900 uninsured term bonds, due July 1, 2033, subject to early redemption or tender	Variable, 0.11% to 0.16% at June 30, 2011	307,900	314,190
2007C Hospital Revenue Bonds	Uninsured term bonds, due July 1, 2032, redeemed in 2011	NA	-	1,900
2006A Hospital First Mortgage Revenue Bonds, net of unamortized premium of $147 and $153 at June 30, 2011 and 2010, respectively	$6,580 uninsured serially, through 2019 $7,375 uninsured term bonds, due July 1, 2026 $20,505 uninsured term bonds, due July 1, 2031 $135,175 uninsured term bonds, due July 1, 2036	5.00% 5.25% 5.50% 5.50%	169,782	170,473
2001A Hospital First Mortgage Revenue Bonds	$23,100 term bonds, due July 1, 2026, subject to early redemption or tender	6.85%	23,100	23,900
2001 Hospital Refunding and Improvement Revenue Bonds (NCH), net of unamortized discount of $34 and $38 at June 30, 2011 and 2010, respectively	$1,465 insured term bonds, due December 1, 2012 $1,635 insured term bonds, due December 1, 2014 $8,815 insured term bonds, due December 1, 2022	5.75% 6.00% 6.00%	11,876	12,547
2000A Hospital First Mortgage Revenue Refunding Bonds	$30,358 insured Capital Appreciation Bonds, interest and principal due July 1, 2026 through 2030	6.63%	30,358	28,417
2000C Hospital First Mortgage Revenue Bonds	$34,325 insured term bonds, due July 1, 2026	8.50%	34,325	35,335
2000D First Mortgage Taxable Bonds	$14,790 insured term bonds, due July 1, 2026	8.50%	14,790	15,225
1998 Hospital Refunding and Improvement Revenue Bonds (JMH)	$6,495 uninsured term bonds, due July 1, 2016 $7,620 uninsured term bonds, due July 1, 2028	5.25% 5.38%	14,115	15,240
Capitalized lease obligations secured by buildings and equipment	Maturing through 2027	3.18% to 13.01%	16,153	16,715
$7,500 promissory note secured by assets of Mediserve Medical Equipment of Kingsport, Inc.	Monthly principal and interest payments of $56 beginning February 2007 maturing December 2011; remaining principal due January 2012	LIBOR + 1.10%	5,473	6,064
Capitalized lease obligations secured by equipment	Various monthly payments of monthly principal and interest	Various	587	1,325
Master installment payment agreement	Paid-off in 2011	Unspecified	-	2,194
$1,409 unsecured promissory note	Monthly principal and interest payments of $23 beginning July 2008 through September 2013; remaining principal and accrued interest due October 2014; note was paid-off in 2011	LIBOR + 1.25%	-	920
$10,221 note payable secured by property	Various annual principal and interest payments through April 2013; note was paid-off in 2011	6.25%	-	7,836
$1,065 note payable secured by land	Monthly interest-only payments through October 2011; remaining principal and accrued interest due November 2011	5.50%	572	1,065
$6,332 promissory note secured by substantially all assets of the Alliance	Monthly principal payments of $35 plus accrued interest beginning July 2010 maturing June 2015; remaining principal due July 2015	LIBOR + 2.00%	5,945	6,332
$3,955 note payable secured by property	Monthly principal and interest payments of $27 beginning July 2010 maturing May 2015; remaining principal due June 2015	3.00%	3,743	3,955

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Description	Maturities	Rates	Outstanding Balance 2011	2010
Note payable under Master Financing Agreement, secured by Equipment	Monthly principal and interest payments of $166 beginning July 2010 maturing June 2017	4.62%	10,431	11,900
Note payable under Master Financing Agreement, secured by Equipment	Monthly principal and interest payments of $56 beginning July 2010 maturing June 2017	3.75%	3,580	4,100
$4,926 convertible construction loan secured by property and assigned rents	Monthly interest-only payments through January 2011 followed by monthly principal and interest payments of $25 maturing December 2014; remaining principal and accrued interest due January 2015; note was paid-off in 2011	Prime (stated minimum and maximum interest rates of 3.75% and 6.75%, respectively)	-	1,195
$1,885 line of credit secured by property	Monthly interest-only payments through March 2011 followed by monthly principal and interest payments of $9 maturing February 2015; remaining principal and accrued interest due March 2015	Prime - 0.50% (stated minimum and maximum interest rates of 3.50% and 6.25%, respectively)	1,873	265
$1,593 note payable, secured by equipment	Various annual principal payments through July 2014	Unspecified	1,593	-
Capitalized lease obligation secured by medical office building (JMH)	Maturing through 2026	9.72%	15,498	-
			1,069,085	1,082,973
	Less current portion		(28,162)	(28,131)
			$ 1,040,923	$ 1,054,842

In September 2010, in order to reduce credit risk and expenses, the Alliance replaced the existing letters of credit related to the Series 2007B, Series 2008A and Series 2008B Bonds with letters of credit held by several different financial institutions. The substitute letters of credit entitle the Master Trustee to draw amounts equal to the principal amounts of the respective series of Bonds outstanding and up to 37 days interest at a rate of 12%. The substitute letters of credit expire on September 29, 2013 unless renewed or replaced.

Series 2010 Bonds: In April 2010, the Alliance issued $168,080 (Series 2010A) and $35,935 Series 2010B fixed rate Hospital Refunding Revenue Bonds (collectively, the Series 2010 Bonds). Proceeds of the Series 2010A and the Series 2010B Bonds were used to refinance outstanding indebtedness, specifically related to the Alliance's facilities in Tennessee and in Virginia, respectively, fund debt service reserve funds and pay costs of issuance. The Alliance recognized a $3,029 loss on early extinguishment of debt representing the write off of previously deferred and unamortized financing costs related to the refinanced Series 2008A and the Series 2007A and 2007C debt issues discussed below.

Series 2009 Bonds

In March 2009, the Alliance issued $5,560 (Series 2009A), $5,535 (Series 2009B) and $115,955 (Series 2009C) fixed rate Hospital Revenue Bonds (collectively, the Series 2009 Bonds). The proceeds of Series 2009 Bonds were used to refinance a portion of the outstanding Series 2006C Taxable Notes, which were originally issued to finance a capital commitment to SCCH and purchase certain leased assets, finance the acquisition of a majority ownership in JMH, fund a debt service

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

reserve fund and pay costs of issuance. The portion of the 2006C taxable notes which were not refinanced with the Series 2009 Bonds were repaid with cash on hand.

In connection with its acquisition of a majority ownership in JMH, the Alliance assumed the then outstanding long-term debt of JMH, totaling $33,906, including the JMH Series 1998 Hospital Refunding and Improvement Revenue Bonds as further described in the table above.

Series 2008 Bonds

In February 2008, the Alliance issued $72,770 (Series 2008A) and $54,230 (Series 2008B) variable rate Hospital Revenue Bonds (collectively, the Series 2008 Bonds). The proceeds of Series 2008 Bonds were primarily used to finance certain future capital projects for the Alliance's hospital facilities and for the repayment of previously issued 2008 Taxable Notes used for the acquisition of RCMC. As discussed above, the payment of principal and interest on the Series 2008 Bonds and the purchase price of any tendered bonds on each series are secured by a separate, irrevocable, transferable, direct-pay letter of credit. A portion ($59,525) of the Series 2008A Bonds were repaid from proceeds of the Series 2010 Bonds.

The variable rate of interest on the Series 2008 Bonds is determined weekly by the Remarketing Agent (Merrill Lynch), as the rate equal to the lowest rate which, in regard to general financial conditions and other special conditions bearing on the rate, would produce as nearly as possible a par bid for the Series 2008 Bonds in the secondary market. In no event shall the variable rate on the Series 2008 Bonds during any period where interest is calculated weekly exceed the lesser of 12% annually or the maximum contract rate of interest permitted by the State of Tennessee for the Series 2008A Bonds or the Commonwealth of Virginia for the Series 2008B Bonds. The Alliance has the option, upon written approval of the holder of the letters of credit, the Remarketing Agent and others, to convert to a medium-term rate period or to a fixed rate.

The Series 2008 Bonds are subject to optional and mandatory tender for purchase prior to maturity at the option of the holder, upon conversion to a fixed rate, upon conversion to a medium-term rate period, prior to the effective date of any substitute letter of credit, or upon the termination of the letters of credit. The optional and mandatory tender provisions generally call for the Master Trustee to purchase the outstanding Series 2008 Bonds at a purchase price equal to the principal amount thereof plus accrued interest upon a stated date as described in the tender notice delivered to the bond holders.

Series 2007 Bonds

In December 2007, the Alliance issued $104,355 (Series 2007A), $327,170 (Series 2007B taxable) and $36,575 (Series 2007C) variable rate Hospital Revenue Bonds (collectively, the Series 2007 Bonds). The proceeds of Series 2007 Bonds were primarily used to early extinguish a portion of the

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

outstanding Series 2000A Bonds, all of the outstanding 2000B Bonds, all of the outstanding Series 1994 Bonds, and all of the outstanding Series 2006B Bonds; to finance the acquisition of a majority ownership in NCH, and to finance certain capital improvements and equipment acquisitions for the Alliance's hospital facilities. A portion of the outstanding Series 2007A ($91,685) and Series 2007C ($32,840) Bonds were repaid from proceeds of the Series 2010 Bonds. The remaining outstanding Series 2007A and Series 2007C Bonds were redeemed in 2011.

In 2011 during the letter of credit restructuring, the existing 2007B Bonds were repaid through a remarketing of Sub-Series 2007B-1, 2007B-2 and 2007B-3 (collectively, the Sub-Series 2007B Bonds), created per the mandatory tender and letter of credit substitution provisions. As discussed above, the payment of principal and interest on the Sub-Series 2007B Bonds and the purchase price of any tendered bonds on each series are secured by a separate, irrevocable, transferable, direct-pay letter of credit.

The variable rate of interest on the Series 2007 Bonds is determined weekly in the same manner as described above for the Series 2008 Bonds. In no event shall the variable rate on the bonds during any period where interest is calculated weekly exceed the lesser of 12% annually or the maximum contract rate of interest permitted by the State of Tennessee. The Alliance has the option, upon written approval of the holder of the letters of credit, the Remarketing Agent and others, to convert to a medium-term rate period or to a fixed rate. Upon such conversion, the bonds become subject to mandatory tender for purchase.

The Sub-Series 2007 Bonds are subject to optional and mandatory tender in the same manner as described above for the Series 2008 Bonds. In addition, the Sub-Series 2007B Bonds are subject to a special mandatory tender with respect to its conversion from taxable debt to tax-exempt debt. As discussed in Note S, certain of the Sub-Series 2007B Bonds were redeemed subsequent to year end.

Series 2006 Bonds

During 2006, the Alliance issued $173,030 Hospital First Mortgage Revenue Bonds (Series 2006A) and $66,500 Hospital First Mortgage Variable Rate Revenue Bonds (Series 2006B). The proceeds from the sale of the Series 2006A Bonds were used to finance certain future and prior capital projects for the Alliance's hospital facilities and to refund certain existing indebtedness, specifically the Series 2001B Bonds (discussed below) and certain existing short and intermediate term loans and leases, as well as fund a debt service reserve fund. The Series 2006B Bond proceeds were substantially used to refund the remaining outstanding principal of the Series 2001B Bonds and establish a debt service reserve fund.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Series 2001 Bonds

During 2001, the Alliance issued $26,000 Hospital First Mortgage Revenue Bonds (Series 2001A) and $60,175 Hospital First Mortgage Revenue Bonds (Series 2001B). The Series 2001A Bonds were subject to optional tender by Bond holders. Effective July 1, 2007, the Alliance entered into an agreement whereby the beneficial owners of the Series 2001A Bonds have irrevocably waived their rights to tender the Bonds under the provisions of the respective Bond Indenture. The waiver will continue in effect through the maturity of the 2001A Bonds. The Series 2001B Bonds were refunded and redeemed in 2006.

Series 2000 Bonds

The Hospital First Mortgage Revenue Refunding (Series 2000A Bonds) and First Mortgage Revenue Refunding Bonds (Series 2000B Bonds), were used to advance refund previously existing indebtedness as well as fund a required debt service reserve fund. The Hospital First Mortgage Revenue Bonds (Series 2000C Taxable Bonds) were intended to refinance certain mortgage indebtedness of BRMM, and to refund other previously existing indebtedness. The proceeds from the sale of the First Mortgage Bonds (Series 2000D Taxable Bonds) were used primarily to fund working capital for the Alliance.

The Series 2000A Bonds included at issue date $14,680 of insured Capital Appreciation Bonds. Such bonds bear a 0% coupon rate and have a yield of 6.625% annually. The Alliance recognizes interest expense and increases the amount of outstanding debt each year based upon this yield. Total principal and interest due at maturity (2026 through 2030) is $93,675.

The advance refunding of previously issued debt requires funds to be placed in irrevocable trusts in order to satisfy remaining scheduled principal and interest payments. Management, upon advice of legal counsel, believes the amounts deposited in such irrevocable trust accounts have contractually relieved the Alliance of any future obligations with respect to this debt, and the debt and escrowed securities are not considered liabilities or assets of the Alliance. Therefore, such debt has been derecognized.

Debt outstanding and not recognized in the Consolidated Balance Sheet at June 30, 2011 due to previous advance refundings of the Series 2000A Bonds, Series 2000B Bonds, Series 1998C Bonds, and Series 1991 Bonds, totaled approximately $525,025.

The assets placed in the irrevocable trust accounts are also not recognized as assets of the Alliance. These assets consist primarily of various investments, as permitted by bond indentures and other

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

documents, including United States Treasury obligations, an investment contract with MBIA Insurance Corporation (MBIA) in the original amount of $54,300, as well as the Series 2000C and 2000D Bonds which were purchased with the proceeds of the 2000A and 2000B Bonds specifically for the purpose of utilizing the Series 2000C and 2000D Bonds in the irrevocable trust. Therefore, certain of the assets held in the irrevocable trust accounts have future income streams contingent upon payments by the Alliance.

Essentially all of the Alliance's bonds are subject to redemption prior to maturity, including optional, mandatory sinking fund and extraordinary redemption, at various dates and prices as described in the respective Bond indentures and other documents.

Other Bonds, Notes Payable and Financing Arrangements

The Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding bonds. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. The NCH Series 2001 Hospital Refunding and Improvement Revenue Bonds are secured by revenues and a lien on certain real and personal property of NCH. The JMH Series 1998 Hospital Refunding and Improvement Revenue Bonds are secured by pledged gross receipts of JMH, as defined in the Master Trust indenture.

The scheduled maturities and mandatory sinking fund payments of the long-term debt and capital lease obligations (excluding interest), exclusive of net unamortized original issue discount and premium, at June 30, 2011 are as follows:

Year Ending June 30,		
2012		$ 28,162
2013		32,230
2014		28,706
2015		34,504
2016		33,585
Thereafter		912,560
		1,069,747
	Net discount	(662)
		$ 1,069,085

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

The Alliance, NCH and JMH are each members of separate Obligated Groups. The bond indentures, master trust indentures, letter of credit agreements and loan agreements related to the various bond issues and notes payable contain covenants with which the respective Obligated Groups must comply. These requirements include maintenance of certain financial and liquidity ratios, deposits to trustee funds, permitted indebtedness, use of facilities and disposals of property. These covenants also require that failure to meet certain debt service coverage tests will require the deposit of all daily cash receipts of the Alliance into a trust fund. Management has represented the Alliance, NCH and JMH are in compliance with all such covenants at June 30, 2011.

In connection with the tax-exempt bonds, the Alliance is required every five years, and at maturity, to remit to the Internal Revenue Service amounts which are due related to positive arbitrage on the borrowed funds. The Alliance performs such computations when required and recognizes any liability at that time. Management does not believe there are any significant arbitrage liabilities at June 30, 2011 or 2010.

NOTE G--SELF-INSURANCE PROGRAMS

The Alliance is substantially self-insured for professional and general liability claims and related expenses. The Alliance maintains a $25,000 umbrella liability policy that attaches over the self-insurance limits of $10,000 per claim and a $15,000 annual aggregate retention. The Alliance's insurance program also provides professional liability coverage for certain affiliates and joint ventures.

The Alliance is also substantially self-insured for workers' compensation claims in the State of Tennessee and has established estimated liabilities for both reported and unreported claims. The Alliance maintains a stop-loss policy that attaches over the self-insurance limits of $1,000 per occurrence and $1,000 annual aggregate retention. In the State of Virginia, the Alliance is not self-insured and maintains workers' compensation insurance through commercial carriers.

At June 30, 2011, the Alliance is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through June 30, 2011 that may result in the assertion of additional claims, and other unreported claims may be asserted arising from services provided in the past. Alliance management has estimated and accrued for the cost of these unreported claims based on historical data and actuarial projections. The estimated net present value of malpractice and workers' compensation claims, both reported and unreported, as of June 30, 2011 and 2010 was $13,531 and $12,601, respectively. The discount rate utilized was 5% at June 30, 2011 and 2010.

(Dollars in Thousands)

NOTE G--SELF-INSURANCE PROGRAMS - Continued

Additionally, the Alliance is self-insured for employee health claims and recognizes expense each year based upon actual claims paid and an estimate of claims incurred but not yet paid, including a catastrophic claims reserve based on historical claims in excess of $75.

NOTE H--NET PATIENT SERVICE REVENUE

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the accompanying Consolidated Statements of Operations is as follows for the years ended June 30:

	2011	*2010*
Inpatient service charges	$ 1,983,340	$ 1,848,590
Outpatient service charges	1,807,247	1,669,705
Gross patient service charges	3,790,587	3,518,295
Less:		
Estimated contractual adjustments and other discounts	2,647,514	2,417,082
Estimated uncollectible self-pay	110,387	111,565
Charity care	72,432	61,378
	2,830,333	2,590,025
Net patient service revenue	$ 960,254	$ 928,270

NOTE I--THIRD-PARTY REIMBURSEMENT

The Alliance renders services to patients under contractual arrangements with Medicare, Medicaid, TennCare, Blue Cross and various other commercial payors. The Medicare program pays for inpatient services on a prospective basis. Payments are based upon diagnosis related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. The Alliance also receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid and other low income patients. Most Medicare outpatient services are reimbursed on a prospectively determined payment methodology. The Medicare program also reimburses certain other services on the basis of reasonable cost, subject to various prescribed limitations and reductions.

Reimbursement under the State of Tennessee's Medicaid waiver program (TennCare) for inpatient and outpatient services is administered by various managed care organizations (MCOs) and is based on diagnosis related group assignments, a negotiated per diem or fee schedule basis. The Alliance

NOTE I--THIRD-PARTY REIMBURSEMENT - Continued

also receives additional supplemental payments from the State of Tennessee. The amount recognized totaled $11,480 and $7,811 for the years ended June 30, 2011 and 2010, respectively. Such payments are not guaranteed in future periods.

The Virginia Medicaid program reimbursement for inpatient hospital services is based on a prospective payment system using both a per case and per diem methodology. Additional payments are made for the allowable costs of capital. Payments for outpatient services are based on Medicare cost reimbursement principles and settled through the filing of an annual Medicaid cost report.

Amounts earned under the contractual agreements with the Medicare and Medicaid programs are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. 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. Activity with respect to audits and reviews of the governmental programs in the healthcare industry has increased and is expected to increase in the future. No additional specific reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts. Management believes that any adjustments from these increased audits and reviews will not have a material adverse impact on the consolidated financial statements. However, due to uncertainties in the estimation, it is at least reasonably possible that management's estimate will change in 2012, although the amount of any change cannot be estimated. The impact of final settlements of cost reports or changes in estimates decreased net patient service revenue by $4,570 in 2011. The impact of final settlements of cost reports or changes in estimates were not significant in 2010.

Participation in the Medicare program subjects the Alliance to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the program. Management believes that adequate provision has been made for any adjustments, fines or penalties which may result from final settlements or violations of other rules or regulations. Management has represented that the Alliance is in substantial compliance with these rules and regulations as of June 30, 2011.

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

NOTE J--EMPLOYEE BENEFIT PLANS

The Alliance sponsors a retirement plan (the Plan) which covers substantially all employees. The Plan is a defined contribution plan which consists mainly of employer-funded contributions. During

NOTE J--EMPLOYEE BENEFIT PLANS - Continued

2011 and 2010, the Alliance made contributions to the Plan under a stratified system, whereby the Alliance's contribution percentage is based on each employee's years of service. In addition, the Alliance sponsors a 403(b) plan which is funded solely by employees' contributions. The Alliance does not make any discretionary or matching contributions into the 403(b) plan. Employees of certain other subsidiaries are covered by other plans, although such plans are not significant. The total expense related to defined contribution plans for the years ended June 30, 2011 and 2010 was $12,682 and $13,311, respectively.

NCH maintains a defined benefit pension plan and a post-retirement employee benefit plan. The accrued unfunded pension liability was $1,313 and $1,942, and the accrued unfunded post-retirement liability was $3,761 and $3,843 at June 30, 2011 and 2010, respectively.

The Alliance sponsors a secured executive benefit program (SEBP) for certain key executives. Contributions to the plan by the Alliance are based on an annual amount of funding necessary to produce a target benefit for the participants at their retirement date, although the Alliance does not guarantee any level of benefit will be achieved. The Alliance contributed $929 and $1,303 to the plan during 2011 and 2010, respectively. Other assets at June 30, 2011 and 2010 include $7,888 and $7,077, respectively, related to the Alliance's portion of the benefits which are recoverable upon the death of the participant. In addition, the Alliance sponsors a Section 457(f) plan for certain key executives. The benefits for substantially all employees previously participating in the SEBP plan have been transferred into the 457(f) plan.

NOTE K--CONCENTRATIONS OF RISK

The Alliance has locations primarily in upper East Tennessee and Southwest Virginia which is considered a geographic concentration. The Alliance grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Net patient service revenue from Washington County, Tennessee operations were approximately 54% of total net patient service revenue for each of the years 2011 and 2010.

The mix of receivables from patients and third-party payors based on charges at established rates is as follows as of June 30:

(Dollars in Thousands)

NOTE K--CONCENTRATIONS OF RISK - Continued

	2011	*2010*
Medicare	40%	42%
Tenncare/Medicaid	12%	15%
Commercial	27%	25%
Other third-party payors	9%	10%
Patients	12%	8%
	100%	100%

Approximately 98% of the consolidated total revenue, gains and support were related to the provision of healthcare services during 2011 and 2010. Admitting physicians are primarily practitioners in the regional area.

Two of the Alliance's Virginia hospitals' employees are covered under collective bargaining agreements which extend through February 2, 2014.

The Alliance routinely invests in investment vehicles as listed in Note C. The Alliance's investment portfolio is managed by outside investment management companies. Investments in corporate and foreign bonds and notes, municipal obligations, money market funds, equities and other vehicles that are held by safekeeping agents are not insured or guaranteed by the U.S. government. At June 30, 2011, the Alliance also had deposits in financial institutions significantly in excess of the Federal Deposit Insurance Corporation's limits.

NOTE L--INCOME TAXES

BRMM and its subsidiaries file a consolidated federal tax return and separate state tax returns. As of June 30, 2011 and 2010, BRMM and its subsidiaries had net operating loss carryforwards for consolidated federal purposes of $34,822 and $32,447, respectively, related to operating losses which expire through 2030. At June 30, 2011 and 2010, BRMM had state net operating loss carryforwards of $65,979 and $59,860, respectively, which expire through 2025. The net operating loss carryforwards may be offset against future taxable income to the extent permitted by the Internal Revenue Code and Tennessee Code Annotated.

At June 30, 2011 and 2010, SWCH had federal and state net operating loss carryforwards of $4,875 and $4,376, respectively, which expire through 2030. CHC files separate federal and state tax returns. At June 30, 2011 and 2010, CHC had a net deferred tax liability of $69 and $58, respectively, due primarily to temporary timing differences related to depreciation. The net operating loss carryforwards may be off-set against future taxable income to the extent permitted by the Internal Revenue Code and tax codes of the Commonwealth of Virginia.

NOTE L--INCOME TAXES - Continued

Net deferred tax assets related to these carryforwards and other deferred tax assets have been substantially offset through valuation allowances equal to these amounts. Income taxes paid relate primarily to state taxes for certain subsidiaries and federal alternative minimum tax.

NOTE M--RELATED PARTY TRANSACTIONS

The Alliance enters into transactions with entities affiliated with certain members of the Board of Directors including transactions to construct Alliance facilities and provide professional services to the Alliance. Board members refrain from discussion and abstain from voting on transactions with entities with which they are related.

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES

Construction in Progress: Construction in progress at June 30, 2011 represents costs incurred related to various hospital and medical office building facility renovations and additions. The Alliance has outstanding contracts and other commitments related to the completion of these projects, and the cost to complete these projects is estimated to be approximately $98,721 at June 30, 2011. The Alliance does not expect any significant costs to be incurred for infrastructure improvements to assets held for resale.

Physician Contracts: BRMM employs physicians to provide services to BRMM's physician practices through employment agreements which provide annual compensation, plus incentives based upon specified productivity levels. These contracts have various terms.

In addition, the Alliance has entered into contractual relationships with non-employed physicians to provide services in Upper East Tennessee and Southwest Virginia. These contracts guarantee certain base payments and allowable expenses and have terms of varying lengths. Upon completion of the respective guarantee period, amounts drawn and outstanding under each agreement are treated as a loan bearing interest at various rates and are subject to repayment over a specified period. The physician note may also be amortized by virtue of the physician's continued practice in the specified community during the repayment period. A net receivable of $1,407 and $1,818 related to these agreements is included in the accompanying Consolidated Balance Sheets at June 30, 2011 and 2010, respectively.

Employee Scholarships: The Alliance offers scholarships to certain individuals which require that the recipients return to the Alliance to work for a specified period of time after they complete their degree. Amounts due are then forgiven over a specific period of time as provided in the individual contracts. If the recipient does not return and work the required period of time, the funds disbursed on their behalf become due immediately and interest is charged until the funds are repaid. Other receivables June 30, 2011 and 2010 includes $7,250 and $5,571, respectively, related to students in

(Dollars in Thousands)

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES - Continued

school, graduates working at the Alliance and amounts due from others who are no longer in the scholarship program.

Promises to Give: The Alliance has recorded certain unconditional promises to give to unrelated organizations. At June 30, 2011, $1,568 is due within one year, and an additional $180 is due within five years and is included in other long-term liabilities.

Operating Leases and Maintenance Contracts: Total lease expense for the years ended June 30, 2011 and 2010 was $9,362 and $10,216, respectively. Future minimum lease payments for each of the next five years and in the aggregate for the Alliance's noncancellable operating leases with remaining lease terms in excess of one year are as follows:

Year Ending June 30,		
2012	$	2,846
2013		2,631
2014		2,286
2015		2,121
2016		1,285
Thereafter		9,914
	$	21,083

Estimated future minimum payments under various noncancellable maintenance contracts with remaining terms in excess of one year at June 30, 2011 total in the aggregate $1,422 through 2016.

Asset Retirement Obligation: The Alliance has identified asbestos in certain facilities and is required by law to dispose of it in a special manner if the facility undergoes major renovations or is demolished; otherwise, the Alliance is not required to remove the asbestos from the facility. The Alliance has complied with regulations by treating the asbestos so that it presents no known immediate or future safety concerns. An asset retirement obligation has been established to the extent that sufficient information exists upon which to estimate the liability.

Other: The Alliance is a party to various transactions and agreements in the normal course of business, which include purchase and re-purchase agreements, put arrangements and other commitments, which may bind the Alliance to undertake additional transactions or activities in the future. In addition, the Alliance has agreed to guarantee a portion of the outstanding indebtedness of a joint venture. Management estimates that the fair value of the guarantee of this debt is immaterial as of June 30, 2011.

(Dollars in Thousands)

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES - Continued

Healthcare Industry: Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

In March 2010, Congress adopted comprehensive health care insurance legislation, *Patient Care Protection and Affordable Care Act* and *Health Care and Education Reconciliation Act*. The legislation, among other matters, is designated to expand access to coverage to substantively all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing TennCare and Medicaid coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

NOTE O--RENTAL INCOME UNDER OPERATING LEASES

The Alliance leases rental properties to third parties, most of whom are physician practices, for various terms, generally five years. The following is a schedule by year and in the aggregate of minimum future rental income due under noncancellable operating leases at June 30, 2011:

Year Ending June 30,		
2012	$	1,742
2013		1,219
2014		958
2015		796
2016		397
Total minimum future rentals	$	5,112

NOTE P--FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Alliance using available market information as of June 30, 2011 and 2010, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Alliance could realize in a current market exchange. The carrying value of substantially all financial instruments approximates fair value due to the nature or term of the instruments, except as described below.

NOTE P--FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Investment in Joint Ventures: It is not practical to estimate the fair market value of the investments in joint ventures.

Other Long-Term Liabilities: Estimates of reported and unreported professional liability claims, pension and post-retirement liabilities are discounted to approximate their estimated fair value. It is not practical to estimate the fair market value of other long-term liabilities due to uncertainty of when these amounts may be paid. Other long-term liabilities are not discounted.

Long-Term Debt and Capital Leases: The fair value of long-term debt is estimated based upon quotes obtained from brokers for bonds and discounted future cash flows using current market rates for other debt. For long-term debt with variable interest rates, the carrying value approximates fair value.

The Alliance's significant capital leases and vendor contracts were negotiated with various entities and are considered unique. It is not practicable to estimate the fair value of these obligations under current conditions. Other capital lease obligations are not significant.

The estimated fair value of the Alliance's financial instruments that have carrying values different from fair value is as follows at June 30:

	2011		*2010*	
	Carrying Value	*Estimated Fair Value*	*Carrying Value*	*Estimated Fair Value*
FINANCIAL LIABILITIES:				
Long-term debt	$ 1,069,085	$ 1,046,675	$ 1,082,973	$ 1,105,778

NOTE Q--FAIR VALUE MEASUREMENT

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation 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 based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar

(Dollars in Thousands)

NOTE Q--FAIR VALUE MEASUREMENT - Continued

assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The Alliance's Level 2 investments are valued primarily using the market valuation approach.

- Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Alliance's own assumptions.

In instances where the determination of the fair value hierarchy 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 Alliance'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.

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of June 30, 2011 and 2010:

	June 30, 2011	*Level 1*	*Level 2*	*Level 3*
Trading securities	$ 333,610	$ 164,953	$ 135,939	$ 32,718
Assets whose use is limited	117,170	117,170	-	-
Total assets	$ 450,780	$ 282,123	$ 135,939	$ 32,718
Fair value of derivative agreements - Note D	$ (110,732)	$ -	$ -	$ (110,732)

	June 30, 2010	*Level 1*	*Level 2*	*Level 3*
Trading securities	$ 209,644	$ 164,510	$ 16,526	$ 28,608
Assets whose use is limited	177,180	177,180	-	-
Total assets	$ 386,824	$ 341,690	$ 16,526	$ 28,608
Fair value of derivative agreements - Note D	$ (134,300)	$ -	$ -	$ (134,300)

The valuation of the Alliance's derivative agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses observable market-based inputs, including forward interest rate curves. The fair values of interest rate swap agreements are determined by netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates based on observable

(Dollars in Thousands)

NOTE Q--FAIR VALUE MEASUREMENT - Continued

market forward interest rate curves and the underlying notional amount. The Alliance also incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty's nonperformance or credit risk in the fair value measurements. The CVA on the Alliance's interest rate swap agreements at June 30, 2011 and 2010 resulted in a decrease in the fair value of the related liability of $7,940 and $10,085, respectively.

A certain portion of the inputs used to value its interest rate swap agreements, including the forward interest rate curves and market perceptions of the Alliance's credit risk used in the CVAs, are unobservable inputs available to a market participant. As a result, the Alliance has determined that the interest rate swap valuations are classified in Level 3 of the fair value hierarchy.

The following tables provide a summary of changes in the fair value of the Alliance's Level 3 financial assets and liabilities during the fiscal years ended June 30, 2011 and 2010:

	Trading Securities	*Derivatives, Net*
July 1, 2009	$ 30,031	$ (126,217)
Total unrealized/realized losses in the Performance Indicator, net	(1,546)	(8,607)
Purchases, issuance and settlements and other, net	1,446	524
Transfers in (out), net	(1,323)	-
June 30, 2010	28,608	(134,300)
Total unrealized/realized gains in the Performance Indicator, net	2,847	23,049
Purchases, issuance and settlements and other, net	1,263	519
June 30, 2011	$ 32,718	$ (110,732)

There were no changes in valuation techniques in 2011 or 2010. During 2011, as part of the transitional test of goodwill impairment, the Alliance recognized goodwill impairment of $2,965 based primarily on the fair value of the reporting unit, utilizing the income approach. Remaining goodwill determined not to be impaired, for this specific reporting unit, is included in the Consolidated Balance Sheet at $2,900. There were no significant assets or liabilities that were re-measured at fair value on a non-recurring basis during the fiscal year ended June 30, 2010.

NOTE R--OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

Direct expenses by functional classification are as follows for the years ended June 30:

(Dollars in Thousands)

NOTE R--OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION - Continued

		2011		*2010*
Healthcare services	$	817,397	$	795,725
Administrative and general		130,543		125,852
Other		9,233		8,625
	$	957,173	$	930,202

NOTE S--SUBSEQUENT EVENTS

Acquisition: Subsequent to June 30, 2011, the Alliance purchased the stock of a pharmacy provider for approximately $6,700. The Alliance has not completed an allocation of the purchase price although it is anticipated significant intangible assets will be recognized upon such allocation.

Debt: In October 2011, the Alliance (along with BRMMC, NCH and SCCH) issued $85,260 of Series 2011 Tax-exempt Hospital Revenue Bonds through The Health and Educational Facilities Board of the City of Johnson City, Tennessee (the Tennessee Bonds) and $110,580 through the Industrial Development Authority of Smyth, Virginia (the Virginia Bonds). Such bonds were issued on parity with the outstanding bond indebtedness of the Alliance as of June 30, 2011. The Bonds bear interest at a variable rate determined by a remarketing agent based upon a weekly rate period. Additionally, the Alliance issued $15,960 of Series 2011 Taxable Bonds. NCH and SCCH were also admitted as members of the Alliance Obligated Group.

The proceeds from the Tennessee Bonds will be issued to finance certain capital acquisitions in the State of Tennessee and pay issuance costs related to these Bonds. The proceeds from the Virginia Bonds will be used to refinance $11,200 of 2001 NCH Hospital Refunding and Improvement Revenue Bonds, finance capital acquisitions for NCH, JMH and SCCH and to pay issuance costs associated with these Bonds. The Series 2011 Taxable Bonds proceeds will be used to finance capital acquisitions of SCCH and BRMMC and pay issuance costs. The timely payment of the Tennessee and the Virginia Bonds is secured by a letter of credit which expires October 19, 2014. The Alliance also redeemed $115,135 of the Series 2007B-1 Revenue Bonds and $29,405 of the Series 2007B-3 Revenue Bonds.

Management further anticipates issuance of an additional $25,000 of tax-exempt bonds for the benefit of JMH. JMH is not a member of the Mountain States Health Alliance Obligated Group.

Subsequent to June 30, 2011, JMH exercised their right to purchase a facility previously held under a capital lease for total consideration of $16,051. $2,093 was paid directly to the third party and the remaining $13,958 was by assumption of a promissory note with payments through 2013. The promissory note bears interest at a variable rate of LIBOR plus 1.5%. Additionally, JMH assumed an interest rate swap in the notional amount of $13,940. JMH pays a fixed rate of 7.46%

NOTE S--SUBSEQUENT EVENTS - Continued

and receives a variable rate of LIBOR plus 1.5%. The interest rate swap has a termination date of August 15, 2012.

Supplemental Schedules

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet
(Dollars in Thousands)

June 30, 2011

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Other Entities	Mountain States Properties	Eliminations	Total
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 450	$ 85,976	$ -	$ 86,426	$ 17,023	$ 9,319	$ -	$ 112,768
Current portion of investments	-	7,629	-	7,629	94,775	13,771	-	116,175
Patient accounts receivable, less estimated allowances for uncollectible accounts	4,476	96,083	-	100,559	34,052	-	-	134,611
Other receivables, net	848	13,434	-	14,282	4,552	780	-	19,614
Inventories and prepaid expenses	553	18,783	-	19,336	9,477	152	-	28,965
TOTAL CURRENT ASSETS	6,327	221,905	-	228,232	159,879	24,022	-	412,133
INVESTMENTS, less amounts required to meet current obligations	19,193	337,367	-	356,560	190,937	33,879	-	581,376
EQUITY IN AFFILIATES	139,582	387,825	(155,611)	371,796	-	-	(371,795)	-
PROPERTY, PLANT AND EQUIPMENT, net	10,696	469,613	-	480,309	258,342	58,766	-	797,418
OTHER ASSETS								
Goodwill	3,281	143,276	-	146,557	2,109	-	-	148,666
Net deferred financing, acquisition costs and	-	-	-	-	-	-	-	-
other charges, less current portion	168	27,991	-	28,159	568	1,117	-	29,844
Other assets	8,467	10,154	-	18,621	7,265	2,562	-	28,448
TOTAL OTHER ASSETS	11,916	181,421	-	193,337	9,942	3,679	-	206,958
	$ 187,714	$ 1,598,131	$ (155,611)	$ 1,630,234	$ 619,100	$ 120,346	$ (371,795)	$ 1,997,885

* Management Services Organization only

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet - Continued
(Dollars in Thousands)

June 30, 2011

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Other Entities	Mountain States Properties	Eliminations	Total
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Accrued interest payable	$ -	$ 19,607	$ -	$ 19,607	$ 440	$ -	$ -	$ 20,047
Current portion of long-term debt and capital lease obligations	550	23,724	-	24,274	3,888	-	-	28,162
Current portion of estimated fair value of derivatives	-	92,044	-	92,044	-	10,565	-	102,609
Accounts payable and accrued expenses	3,463	66,494	-	69,957	27,645	1,217	-	98,819
Accrued salaries, compensated absences and amounts withheld	3,093	40,177	-	43,270	14,530	-	-	57,800
Payables to (receivables from) affiliates, net	11,094	(81,319)	-	(70,225)	94,632	(24,407)	-	-
Estimated amounts due to third-party payors, net	-	12,547	-	12,547	2,266	-	-	14,813
TOTAL CURRENT LIABILITIES	18,200	173,274	-	191,474	143,401	(12,625)	-	322,250
OTHER LIABILITIES								
Long-term debt and capital lease obligations, less current portion	4,923	979,774	-	984,697	56,226	-	-	1,040,923
Estimated fair value of derivatives, less current portion	-	7,783	-	7,783	-	340	-	8,123
Deferred revenue	-	19,167	-	19,167	100	-	-	19,267
Estimated professional liability self-insurance	2,285	4,494	-	6,779	2,913	-	-	9,692
Other long-term liabilities	6,695	2,402	-	9,097	5,255	-	-	14,352
TOTAL LIABILITIES	32,103	1,186,894	-	1,218,997	207,895	(12,285)	-	1,414,607
NET ASSETS								
UNRESTRICTED NET ASSETS								
Unrestricted net assets								
Mountain States Health Alliance	155,478	400,395	(155,478)	400,395	228,554	132,631	(361,185)	400,395
Noncontrolling interests in subsidiaries	-	-	-	-	171,984	-	-	171,984
TOTAL UNRESTRICTED NET ASSETS	155,478	400,395	(155,478)	400,395	400,538	132,631	(361,185)	572,379
Temporarily restricted net assets								
Mountain States Health Alliance	133	10,715	(133)	10,715	10,483	-	(10,483)	10,715
Noncontrolling interests in subsidiaries	-	-	-	-	57	-	-	57
TOTAL TEMPORARILY RESTRICTED NET ASSETS	133	10,715	(133)	10,715	10,540	-	(10,483)	10,772
Permanently restricted net assets	-	127	-	127	127		(127)	127
TOTAL NET ASSETS	155,611	411,237	(155,611)	411,237	411,205	132,631	(371,795)	583,278
	$ 187,714	$ 1,598,131	$ (155,611)	$ 1,630,234	$ 619,100	$ 120,346	$ (371,795)	$ 1,997,885

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Operations (Dollars in Thousands)

Year Ended June 30, 2011

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Other Entities	Mountain States Properties	Eliminations	Total
Revenue, gains and support:								
Net patient service revenue	$ 35,353	$ 683,224	$ (1,702)	$ 716,875	$ 243,487	$ -	$ (108)	$ 960,254
Other operating revenue	26,855	3,657	(20,748)	9,764	39,423	7,807	(41,123)	15,871
Equity in net gain (loss) of affiliates	974	(3,283)	2,051	(258)	-	-	258	-
TOTAL REVENUE, GAINS AND SUPPORT	63,182	683,598	(20,399)	726,381	282,910	7,807	(40,973)	976,125
Expenses:								
Salaries and wages	17,287	235,564	-	252,851	92,108	150	(2,901)	342,208
Physician salaries and wages	32,631	1,010	-	33,641	55,417	-	(29,809)	59,249
Contract labor	866	3,234	-	4,100	2,123	-	(259)	5,964
Employee benefits	4,874	45,591	(1,743)	48,722	20,414	35	(2,032)	67,139
Fees	3,544	81,194	(20,612)	64,126	22,251	713	(1,171)	85,919
Supplies	1,745	129,126	-	130,871	38,594	2	(105)	169,362
Utilities	455	11,386	-	11,841	4,452	1,007	-	17,300
Other	4,778	38,479	(95)	43,162	28,206	3,230	(4,951)	69,647
Depreciation	1,476	59,635	-	61,111	23,666	2,722	-	87,499
Amortization	23	2,188	-	2,211	348	-	-	2,559
Estimated provision for bad debts	353	4,097	-	4,450	1,724	-	-	6,174
Interest and taxes	(1,228)	42,204	-	40,976	3,248	1,374	(1,445)	44,153
TOTAL EXPENSES	66,804	653,708	(22,450)	698,062	292,551	9,233	(42,673)	957,173
OPERATING INCOME (LOSS)	(3,622)	29,890	2,051	28,319	(9,641)	(1,426)	1,700	18,952
Nonoperating gains (losses):								
Interest and dividend income	662	9,810	-	10,472	6,552	645	(1,445)	16,224
Net realized gains on the sale of securities	73	1,449	-	1,522	435	-	-	1,957
Net unrealized gains on securities	1,311	13,664	-	14,975	7,949	(756)	-	22,168
Derivative related income	-	3,512	-	3,512	-	1,560	-	5,072
Change in estimated fair value of derivatives	-	23,137	-	23,137	-	(88)	-	23,049
Other nonoperating gains (losses)	(475)	1,245	-	770	(3,430)	4	3	(2,653)
Net assets released from restrictions used for operations	-	562	-	562	1,331	-	-	1,893
NET NONOPERATING GAINS	1,571	53,379	-	54,950	12,837	1,365	(1,442)	67,710
EXCESS (DEFICIT) OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ (2,051)	$ 83,269	$ 2,051	$ 83,269	$ 3,196	$ (61)	$ 258	$ 86,662

*Management Services Organization only.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Changes in Net Assets (Dollars in Thousands)

Year Ended June 30, 2011

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Other Entities: Mountain States Health Alliance	Other Entities: Noncontrolling Interests	Total Other Entities	Mountain States Properties	Eliminations	Total
UNRESTRICTED NET ASSETS:										
Excess of Revenue, Gains and Support over Expenses and Losses	$ (2,051)	$ 83,269	$ 2,051	$ 83,269	$ (197)	$ 3,393	$ 3,196	$ (61)	$ 258	$ 86,662
Pension and other defined benefit plan adjustments	-	620	-	620	620	617	1,237	-	(620)	1,237
Cumulative effect of a change in accounting principle	(2,965)	(2,965)	2,965	(2,965)	-	-	-			(2,965)
Net assets released from restrictions used for the purchase of property, plant and equipment	-	1,946	-	1,946	1,946	-	1,946	-	(1,946)	1,946
Distributions to noncontrolling interests	-	-	-	-	-	(270)	(270)	-	-	(270)
Repurchases of noncontrolling interests and other	(43)	40	43	40	(182)	(115)	(297)	-	182	(75)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(5,059)	82,910	5,059	82,910	2,187	3,625	5,812	(61)	(2,126)	86,535
TEMPORARILY RESTRICTED NET ASSETS:										
Restricted grants and contributions	-	3,612	-	3,612	2,990	58	3,048	-	(2,990)	3,670
Net assets released from restrictions	-	(3,787)	-	(3,787)	(3,225)	(52)	(3,277)	-	3,225	(3,839)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	-	(175)	-	(175)	(235)	6	(229)	-	235	(169)
INCREASE (DECREASE) IN TOTAL NET ASSETS	(5,059)	82,735	5,059	82,735	1,952	3,631	5,583	(61)	(1,891)	86,366
NET ASSETS, BEGINNING OF YEAR	160,670	328,502	(160,670)	328,502	237,212	168,410	405,622	132,692	(369,904)	496,912
NET ASSETS, END OF YEAR	$ 155,611	$ 411,237	$ (155,611)	$ 411,237	$ 239,164	$ 172,041	$ 411,205	$ 132,631	$ (371,795)	$ 583,278

*Management Services Organization only.

NOTE A--OBLIGATED GROUP MEMBERS

As described in Note F to the consolidated financial statements, the Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding bonds. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. In accordance with Article Six, Section 6.6 of the Amended and Restated Master Trust Indenture between Mountain States Health Alliance and the Bank of New York Trust Company, NA as Master Trustee, those members pledged include Johnson City Medical Center Hospital, Indian Path Medical Center, Franklin Woods Community Hospital, Sycamore Shoals Hospital, Johnson County Community Hospital, Russell County Medical Center and Blue Ridge Medical Management Corporation (parent company only), collectively defined as the Obligated Group (Obligated Group).

The supplemental consolidating schedules include the accounts of the members of the Obligated Group after elimination of all significant intergroup accounts and transactions. Certain other subsidiaries of the Alliance, Mountain States Properties, Inc. (MSP) and all other affiliates (Other Entities), are not pledged to secure the payment of the outstanding bonds as they are not part of the Obligated Group. These affiliates have been accounted for within the Obligated Group based upon the Alliance's original and subsequent investments, as adjusted for the Alliance's pro rata share of income or losses and any distributions, and are included as a part of equity in affiliates in the supplemental consolidating balance sheet.

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Schedules)

Years Ended June 30, 2012 and 2011

PYA
Certified Public Accountants

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Schedules)

Years Ended June 30, 2012 and 2011

PERSHING YOAKLEY & ASSOCIATES, P.C.
One Cherokee Mills, 2220 Sutherland Avenue
Knoxville, TN 37919
p: (865) 673-0844 | f: (865) 673-0173
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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mountain States Health Alliance:

We have audited the accompanying consolidated balance sheets of Mountain States Health Alliance and subsidiaries (the Alliance) as of June 30, 2012 and 2011 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Alliance's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

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

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

Pershing Yoakley & Associates PC

Knoxville, Tennessee
October 26, 2012

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30, 2012	June 30, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ **65,107**	$ 112,768
Current portion of investments - Note C	**36,557**	116,175
Patient accounts receivable, less estimated allowances for uncollectible accounts of $52,911 in 2012 and $53,366 in 2011	**150,690**	134,611
Other receivables, net	**23,008**	19,614
Inventories and prepaid expenses	**28,810**	28,965
TOTAL CURRENT ASSETS	**304,172**	412,133
INVESTMENTS, less amounts required to meet current obligations	**560,697**	581,376
PROPERTY, PLANT AND EQUIPMENT, net	**865,456**	797,418
OTHER ASSETS		
Goodwill	**154,391**	148,666
Net deferred financing, acquisition costs and other charges	**28,187**	29,844
Other assets	**28,144**	28,448
TOTAL OTHER ASSETS	**210,722**	206,958
	$ **1,941,047**	$ 1,997,885

	June 30, 2012	2011
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	$ 18,525	$ 20,047
Current portion of long-term debt and capital lease obligations	32,477	28,162
Current portion of estimated fair value of derivatives - Note D	10,395	102,609
Accounts payable and accrued expenses	108,870	98,819
Accrued salaries, compensated absences and amounts withheld	55,589	57,800
Estimated amounts due to third-party payors, net	18,060	14,813
TOTAL CURRENT LIABILITIES	243,916	322,250
OTHER LIABILITIES		
Long-term debt and capital lease obligations, less current portion	1,048,098	1,040,923
Estimated fair value of derivatives, less current portion	8,986	8,123
Deferred revenue	3,134	19,267
Estimated professional liability self-insurance	9,344	9,692
Other long-term liabilities	16,822	14,352
TOTAL LIABILITIES	1,330,300	1,414,607
COMMITMENTS AND CONTINGENCIES - Notes D, F, G, and N		
NET ASSETS		
Unrestricted net assets		
Mountain States Health Alliance	436,388	400,395
Noncontrolling interests in subsidiaries	162,959	171,984
TOTAL UNRESTRICTED NET ASSETS	599,347	572,379
Temporarily restricted net assets		
Mountain States Health Alliance	11,223	10,715
Noncontrolling interests in subsidiaries	50	57
TOTAL TEMPORARILY RESTRICTED NET ASSETS	11,273	10,772
Permanently restricted net assets	127	127
TOTAL NET ASSETS	610,747	583,278
	$ 1,941,047	$ 1,997,885

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations
(Dollars in Thousands)

	Year Ended June 30, 2012	2011
Revenue, gains and support:		
Patient service revenue, net of contractual allowances and discounts	$ **1,075,050**	$ 1,062,123
Provision for bad debts	**(122,917)**	(116,248)
Net patient service revenue	**952,133**	945,875
Other operating revenue	**39,407**	24,868
TOTAL REVENUE, GAINS AND SUPPORT	**991,540**	970,743
Expenses:		
Salaries and wages	**358,607**	342,208
Physician salaries and wages	**65,706**	59,249
Contract labor	**6,375**	5,964
Employee benefits	**69,600**	67,139
Fees	**97,959**	85,919
Supplies	**170,186**	168,261
Utilities	**17,289**	17,300
Other	**76,285**	69,647
Depreciation	**73,060**	87,499
Amortization	**2,245**	2,559
Interest and taxes	**45,903**	44,153
TOTAL EXPENSES	**983,215**	949,898
OPERATING INCOME	**8,325**	20,845
Nonoperating gains (losses):		
Interest and dividend income	**15,213**	16,224
Net realized gains (losses) on the sale of securities	**(2,595)**	1,957
Change in net unrealized gains on securities	**(2,884)**	22,168
Derivative related income	**7,515**	5,072
Loss on early extinguishment of debt - Note F	**(2,636)**	-
Change in estimated fair value of derivatives	**(6,198)**	23,049
Other nonoperating gains (losses)	**11,236**	(2,653)
NET NONOPERATING GAINS	**19,651**	65,817
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ **27,976**	$ 86,662

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets
(Dollars in Thousands)

Year Ended June 30, 2012

	Mountain States Health Alliance	*Noncontrolling Interests*	*Total*
UNRESTRICTED NET ASSETS:			
Excess (Deficit) of Revenue, Gains and Support over Expenses and Losses	$ 31,702	$ (3,726)	$ 27,976
Pension and other defined benefit plan adjustments	(1,119)	(1,115)	(2,234)
Net assets released from restrictions used for the purchase of property, plant and equipment	1,550	-	1,550
Distributions to noncontrolling interests	-	(324)	(324)
Repurchases of noncontrolling interests	3,860	(3,860)	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	35,993	(9,025)	26,968
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	3,860	39	3,899
Net assets released from restrictions	(3,352)	(46)	(3,398)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	508	(7)	501
INCREASE (DECREASE) IN TOTAL NET ASSETS	36,501	(9,032)	27,469
NET ASSETS, BEGINNING OF YEAR	411,237	172,041	583,278
NET ASSETS, END OF YEAR	$ 447,738	$ 163,009	$ 610,747

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets - Continued
(Dollars in Thousands)

Year Ended June 30, 2011

	Mountain States Health Alliance	*Noncontrolling Interests*	*Total*
UNRESTRICTED NET ASSETS:			
Excess of Revenue, Gains and Support over Expenses and Losses	$ 83,269	$ 3,393	$ 86,662
Pension and other defined benefit plan adjustments	620	617	1,237
Cumulative effect of a change in accounting principle - Note B	(2,965)	-	(2,965)
Net assets released from restrictions used for the purchase of property, plant and equipment	1,946	-	1,946
Distributions to noncontrolling interests	-	(270)	(270)
Repurchases of noncontrolling interests and other	40	(115)	(75)
INCREASE IN UNRESTRICTED NET ASSETS	82,910	3,625	86,535
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	3,612	58	3,670
Net assets released from restrictions	(3,787)	(52)	(3,839)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(175)	6	(169)
INCREASE IN TOTAL NET ASSETS	82,735	3,631	86,366
NET ASSETS, BEGINNING OF YEAR	328,502	168,410	496,912
NET ASSETS, END OF YEAR	$ 411,237	$ 172,041	$ 583,278

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ **27,469**	$ 86,366
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for depreciation and amortization	**75,777**	90,472
Loss on early extinguishment of debt	**2,636**	-
Cumulative effect of a change in accounting principle	-	2,965
Change in estimated fair value of derivatives	**6,198**	(23,049)
Equity in net income of joint ventures, net	**(979)**	(898)
Loss (gain) on disposal of assets	**446**	(367)
Amounts received on interest rate swap settlements	**(7,515)**	(5,072)
Gain on escrow restructuring - Note F	**(5,337)**	-
Income recognized through forward sale agreements	**(864)**	(864)
Gain on termination of swaption and forward sale agreements - Note D	**(7,766)**	-
Capital Appreciation Bond accretion and other	**3,159**	2,738
Restricted contributions	**(3,899)**	(3,670)
Pension and other defined benefit plan adjustments	**2,234**	(1,237)
Increase (decrease) in cash due to change in:		
Patient accounts receivable	**(16,079)**	(9,031)
Other receivables, net	**(3,501)**	(2,802)
Inventories and prepaid expenses	**155**	(643)
Trading securities	**21,646**	(123,966)
Other assets	**(2,733)**	(3,632)
Accrued interest payable	**(1,522)**	4,008
Accounts payable and accrued expenses	**4,131**	2,741
Accrued salaries, compensated absences and amounts withheld	**(2,211)**	11,361
Estimated amounts due to third-party payors, net	**3,247**	4,658
Other long-term liabilities	**236**	2,961
Estimated professional liability self-insurance	**(348)**	151
Total adjustments	**67,111**	(53,176)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**94,580**	33,190
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	**(132,890)**	(172,786)
Additions to goodwill	**(5,725)**	(279)
Net decrease in assets limited as to use	**85,947**	81,383
Purchases of held-to-maturity securities	**(9,516)**	(41,060)
Net distribution from joint ventures and unconsolidated affiliates	**882**	1,057
Proceeds from sale of property, plant and equipment	**1,881**	812
NET CASH USED IN INVESTING ACTIVITIES	**(59,421)**	(130,873)

	Year Ended June 30,	
	2012	***2011***
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital lease obligations, including deposits to escrow	**(71,997)**	(37,735)
Payment of acquisition and financing costs	**(2,742)**	(1,716)
Proceeds from issuance of long-term debt and other financing arrangements	**67,451**	5,954
Payment on termination of swaption	**(93,353)**	-
Gain on escrow restructuring	**5,337**	-
Net amounts received on interest rate swap settlements	**7,515**	5,072
Restricted contributions received	**4,969**	4,350
NET CASH USED IN FINANCING ACTIVITIES	**(82,820)**	(24,075)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(47,661)**	(121,758)
CASH AND CASH EQUIVALENTS, beginning of year	**112,768**	234,526
CASH AND CASH EQUIVALENTS, end of year	**$ 65,107**	$ 112,768
SUPPLEMENTAL INFORMATION AND NON-CASH TRANSACTIONS:		
Cash paid for interest	**$ 41,168**	$ 39,507
Cash paid for federal and state income taxes	**$ 336**	$ 739
Construction related payables in accounts payable and accrued expenses	**$ 6,821**	$ 11,384
Property acquired through capital lease arrangement	**$ 13,959**	$ 15,951
Payable on termination of forward sale agreements in accounts payable and accrued expenses	**$ 13,429**	$ -
Land held for expansion placed in use	**$ 1,610**	$ 4,904

During the year ended June 30, 2012, the Alliance refinanced previously issued debt of $174,547.

NOTE A--ORGANIZATION AND OPERATIONS

Mountain States Health Alliance (the Alliance) is a tax-exempt entity with operations primarily located in Washington, Sullivan, and Carter counties of Tennessee and Smyth, Wise, Dickenson, Russell and Washington counties of Virginia. The initial funds for the establishment of the Alliance in 1945 were provided by individuals and various institutions. Membership of the Alliance consists of individuals and institutions who have contributed at least $100 to the capital fund of the Alliance and are entitled to vote at the annual election of the Board of Directors.

The primary operations of the Alliance consist of ten acute and specialty care hospitals, as follows:

- Johnson City Medical Center (JCMC) - licensed for 658 beds
- Indian Path Medical Center (IPMC) - licensed for 261 beds
- Smyth County Community Hospital (SCCH) - licensed for 153 beds
- Norton Community Hospital (NCH) - licensed for 129 beds
- Sycamore Shoals Hospital (SSH) - licensed for 121 beds
- Johnston Memorial Hospital (JMH) - licensed for 116 beds
- Franklin Woods Community Hospital (FWCH) - licensed for 80 beds
- Russell County Medical Center (RCMC) - licensed for 78 beds
- Dickenson Community Hospital (DCH) - licensed for 25 beds
- Johnson County Community Hospital (JCCH) - licensed for 2 beds

The Alliance has a 50.1% interest in JMH. JMH is also the sole member of Abingdon Physician Partners (APP), a non-taxable corporation that owns and manages physician practices.

The Alliance has a 50.1% interest in NCH. NCH is also the sole member or shareholder of DCH and Norton Community Physician Services, LLC (NCPS), a taxable corporation that consists of physician practices and a pharmacy and; Community Home Care (CHC), a taxable corporation that provides home medical equipment.

The Alliance has an 80% interest in SCCH. SCCH is the sole shareholder of Southwest Community Health Services, Inc. (SWCH), a taxable entity that operates a pharmacy and provides other health services.

The activities and accounts of JMH, NCH and SCCH are included in the accompanying consolidated financial statements.

The Alliance is the sole shareholder of Blue Ridge Medical Management Corporation (BRMM), a for-profit entity that owns and manages physician practices and provides other healthcare services to patients in Tennessee and Virginia. BRMM also operates as a medical office real estate developer by

NOTE A--ORGANIZATION AND OPERATIONS - Continued

owning, selling and leasing real estate to physician practices and other entities. BRMM is either the sole shareholder, a significant shareholder, or member of the following organizations:

Mountain States Physician Group, Inc. (MSPG): A company that contracts with physicians to provide services to BRMM physician practices.

Mountain States Properties, Inc. (MSPI): An entity that owns and manages certain real estate (primarily medical office buildings) and provides rehabilitation and fitness services. In addition, MSPI is counter-party to an interest rate swap.

Mediserve Medical Equipment of Kingsport, Inc. (Mediserve): A company that provides durable medical equipment services.

Kingsport Ambulatory Surgery Center (KASC) (d.b.a. Kingsport Day Surgery): A joint venture operating as an outpatient surgery center which performs procedures primarily in otolaryngology, orthopedics, ophthalmology, and general surgery. BRMM has a 43% ownership of KASC and maintains control over KASC through a management agreement. The accounts and activities of KASC are included in the accompanying consolidated financial statements.

Piney Flats Urgent Care (PFUC): A for-profit entity that provides urgent care patient services. BRMM has a 75% ownership of PFUC. The accounts and activities of PFUC are included in the accompanying consolidated financial statements.

Wilson Pharmacy, Inc. (Wilson): In August 2012, BRMM acquired Wilson, a Company that owns and operates retail pharmacies. BRMM purchased 100% of the total issued and outstanding capital stock of Wilson for $8,114 and recognized goodwill of $5,725.

The Alliance is the primary beneficiary of the activities of Mountain States Foundation, Inc. (MSF), a not-for-profit foundation formed to coordinate fundraising and development activities of the Alliance. The Alliance is also the beneficiary of the Mountain States Health Alliance Auxiliary (Auxiliary), a not-for-profit organization formed to coordinate volunteer activities of the Alliance. The activities and accounts of MSF and the Auxiliary are included in the accompanying consolidated financial statements.

The Alliance is a majority shareholder of Integrated Solutions Health Network, LLC (ISHN). The primary function of ISHN is to establish, operate and administer a provider-sponsored health care delivery network. The accounts and activities of ISHN are included in the accompanying consolidated financial statements.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Alliance and its subsidiaries after elimination of all significant intercompany accounts and transactions. The Alliance classifies those activities directly associated with its mission of providing healthcare services, as well as other activities deemed significant to its operations, as operating activities.

Noncontrolling Interests in Subsidiaries: The Alliance's accompanying consolidated financial statements include all assets, liabilities, revenues, expenses, and changes in net assets, including amounts attributable to the noncontrolling interest. Noncontrolling interests represent the portion of equity (net assets) into a subsidiary not attributable, directly or indirectly, to the Alliance. For the years ending June 30, 2012 and 2011, the Alliance attributed an Excess (Deficit) of Revenue, Gains and Support over Expenses and Losses of ($3,726) and $3,393, respectively, to the noncontrolling interests in JMH, NCH, SCCH, KASC, PFUC and ISHN based on the noncontrolling interests' respective ownership percentage.

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents: Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents designated as assets limited as to use or uninvested amounts included in investment portfolios are not included as cash and cash equivalents on the Consolidated Balance Sheets.

Investments: Investments as reported in the Consolidated Balance Sheets include trading securities, held-to-maturity securities and assets limited as to use (Note C). The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-320, *Investments – Debt and Equity Securities*, allows not-for-profit organizations to report in a manner similar to business entities by identifying securities as available-for-sale or held-to-maturity and to exclude the unrealized gains and losses on those securities from the Performance Indicator (as defined below). Investments which the Alliance has the positive intent and ability to hold to maturity are considered as held-to-maturity. Substantially all other investments are considered as trading securities. Management annually evaluates the held-to-maturity investment portfolio and recognizes any "other-than-temporary" losses as deductions from the Performance Indicator. Management's evaluation considers the amount of decline in fair value, as well as the time period of any such decline.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Management does not believe any investment classified as held-to-maturity is other-than-temporarily impaired at June 30, 2012.

Within the trading securities portfolio, all debt securities and marketable equity securities with readily determinable fair values are reported at fair value based on quoted market prices. Investments without readily determinable fair values are reported at estimated fair market value pursuant to FASB ASC 825, *Financial Instruments*. Guaranteed investment contracts are reported at contract value.

Realized gains and losses on trading securities and assets limited as to use are computed using the specific identification method for cost determination. Interest and dividend income is reported net of related investment fees.

Investments in joint ventures are reported under the equity method of accounting, which approximates the Alliance's equity in the underlying net book value, unless the ownership structure requires consolidation. Other assets include investments in joint ventures of $2,153 and $2,367 at June 30, 2012 and 2011, respectively.

Inventories: Inventories, consisting primarily of medical supplies, are stated at the lower of cost or market.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost, or if donated, at the fair value at the date of gift. Generally, depreciation is computed by the straight-line method over the estimated useful life of the asset. Equipment held under capital lease obligations is amortized under the straight-line method over the shorter of the lease term or estimated useful life. Amortization of buildings and equipment held under capital leases is shown as a part of depreciation expense and accumulated depreciation in the accompanying consolidated financial statements. Renewals and betterments are capitalized and depreciated over their useful life, whereas costs of maintenance and repairs are expensed as incurred.

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The amount capitalized is net of investment earnings on assets limited as to use derived from borrowings designated for capital assets.

The Alliance reviews capital assets for indications of potential impairment when there are changes in circumstances related to a specific asset. If this review indicates that the carrying value of these assets may not be recoverable, the Alliance estimates future cash flows from operations and the eventual disposition of such assets. If the sum of these undiscounted future cash flows is less than

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

the carrying amount of the asset, a write-down to estimated fair value is recorded. The Alliance did not recognize any impairment losses during 2012 and 2011.

Other assets include property held for resale and property held for expansion of $2,620 and $4,230, respectively, at June 30, 2012 and 2011. During 2012, property held for expansion totaling approximately $1,610 was transferred to property, plant and equipment in conjunction with the construction of a replacement facility for SCCH. During 2011, property held for expansion totaling approximately $4,904 was transferred to property, plant and equipment in conjunction with the construction of FWCH. Property held for resale and property held for expansion primarily represent land contributed to, or purchased by, the Alliance plus costs incurred to develop the infrastructure of such land. Management annually evaluates its investment and records non-temporary declines in value when it is determined the ultimate net realizable value is less than the recorded amount. No such declines were identified in 2012 and 2011.

Goodwill: Goodwill represents the difference between the acquisition cost of assets and the estimated fair value of net tangible and any separately identified intangible assets. Effective July 1, 2010, the Alliance adopted ASC 350, *Intangibles – Goodwill and Other*, which requires goodwill to be evaluated for impairment at least annually. Upon adoption of ASC 350, the Alliance was required to perform a transitional impairment test. As a result of this testing, management determined that as of July 1, 2010 approximately $2,965 of goodwill associated with one of its reporting units was impaired, and such impairment has been reflected as the Cumulative Effect of a Change in Accounting Principle in the 2011 Consolidated Statement of Changes in Net Assets.

In September 2011, the FASB issued Accounting Standards Update (ASU) 2011-08 which allows entities to use a qualitative approach to determine whether the fair value of a reporting unit is more likely than not impaired. The Alliance early adopted the provisions of this ASU and, based upon this qualitative analysis, management does not believe it is more likely than not that goodwill associated with any of its reporting units is impaired as of June 30, 2012. The reporting unit for evaluation of substantially all such goodwill is the Alliance's aggregate acute-care operations.

Deferred Financing, Acquisition Costs and Other Charges: Other assets, including deferred financing, acquisition costs and other charges, total $28,187 and $29,844 at June 30, 2012 and 2011, respectively. Deferred financing costs are amortized over the life of the respective bond issue principally using the average bonds outstanding method. Other intangible assets include licenses and similar assets and are being amortized over the intangible's estimated useful life under the straight-line method.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Prior to 2009, the Alliance routinely financed interest rate swap and other derivative transaction issuance costs through modification of future settlement terms. As such, the unamortized issuance costs of these derivatives are included as deferred financing costs in the accompanying Consolidated Balance Sheets and are being amortized over the term of the respective derivative instrument. The unpaid issuance costs are included as a part of the estimated fair value of derivatives in the accompanying Consolidated Balance Sheets. Subsequent to 2009, interest rate swap and derivative transaction issuance costs were expensed as incurred.

Derivative Financial Instruments: As further described in Note D, the Alliance is a party to interest rate swap and other derivative agreements. These financial instruments are not designated as hedges and have been presented at estimated fair market value in the accompanying Consolidated Balance Sheets as either current or long-term liabilities, based upon the remaining term of the instrument. Changes in the estimated fair value of these derivatives are included in the Consolidated Statements of Operations as part of nonoperating gains (losses). Net settlements and other related income of derivatives are also reflected as a part of the Performance Indicator (described below).

These fair values are based on the estimated amount the Alliance would receive, or be required to pay, to enter into equivalent agreements at the valuation date and include an estimated credit value adjustment. The fair value of various derivatives are netted on the Consolidated Balance Sheets based on management's evaluation of the settlement provisions in the master contract. Gross positions of these derivatives are disclosed in Note D. Due to the nature of these financial instruments, such estimates of fair value are subject to significant change in the near term.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Self-insurance liabilities include estimated reserves for reported and unreported professional liability claims (Note G) and are recorded at the estimated net present value of such claims. Other long-term liabilities include contributions payable and obligations under deferred compensation arrangements, a defined benefit pension plan, a post-retirement employee benefit plan as well as other liabilities which management estimates are not payable within one year.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts, 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 Alliance's revenue recognition policies related to self-pay and other types of payors emphasize revenue recognition only when collections are reasonably assured.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Patient accounts receivable are reported net of both an estimated allowance for uncollectible accounts and an estimated allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid, TennCare and other third-party payment programs. Current operations include a provision for bad debts in the Consolidated Statements of Operations estimated based upon the age of the patient accounts receivable, historical writeoffs and recoveries and any unusual circumstances (such as local, regional or national economic conditions) which affect the collectibility of receivables, including management's assumptions about conditions it expects to exist and courses of action it expects to take. Additions to the allowance for uncollectible accounts result from the provision for bad debts. Patient accounts written off as uncollectible are deducted from the allowance for uncollectible accounts.

For uninsured patients that do not qualify for charity care, the Alliance recognizes revenue on the basis of discounted rates under the Alliance's self-pay patient policy. Under the policy, a patient who has no insurance and is ineligible for any government assistance program has his or her bill reduced to the amount which generally would be billed to a commercially insured patient.

The Alliance's policy does not require collateral or other security for patient accounts receivable. The Alliance routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Charity Care: The Alliance accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Alliance and various guidelines outlined by the Federal Government. These policies define charity as those services for which no payment is anticipated and, as such, charges at established rates are not included in net patient service revenue. The estimated direct and indirect cost of providing these services totaled approximately $24,709 and $18,158 in 2012 and 2011, respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated under a reasonable and systematic approach.

In addition to the charity care services described above, the Alliance provides a number of other services to benefit the poor for which little or no payment is received. Medicare, Medicaid, TennCare and State indigent programs do not cover the full cost of providing care to beneficiaries of those programs. The Alliance also provides services to the community at large for which it receives little or no payment.

Excess (Deficit) of Revenue, Gains and Support Over Expenses and Losses: The Consolidated Statements of Operations and the Consolidated Statements of Changes in Net Assets includes the

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

caption *Excess (Deficit) of Revenue, Gains and Support Over Expenses and Losses* (the Performance Indicator). Changes in unrestricted net assets which are excluded from the Performance Indicator, consistent with industry practice, include contributions of long-lived assets or amounts restricted to the purchase of long-lived assets, pension and related adjustments, and distributions to, or contributions from, owners and transactions with noncontrolling interests.

Income Taxes: The Alliance is classified as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been made in the accompanying consolidated financial statements for the Alliance and its tax-exempt subsidiaries. Taxable entities account for income taxes in accordance with FASB ASC 740, *Income Taxes* (Note L). The Alliance has no significant uncertain tax positions at June 30, 2012 and 2011.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor or time restriction expires; that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Consolidated Statements of Operations and Consolidated Statements of Changes in Net Assets as net assets released from restrictions. The Alliance's policy is to net contribution and grant revenues against related expenses and present such amounts as a part of other nonoperating gains (losses) in the Consolidated Statements of Operations. Permanently restricted net assets have been restricted by donors to be maintained by the Alliance in perpetuity.

Fair Value Measurement: The Alliance had previously adopted FASB ASC 820, *Fair Value Measurements and Disclosures,* which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements.

Subsequent Events: The Alliance evaluated all events or transactions that occurred after June 30, 2012, through October 26, 2012, the date the consolidated financial statements were available to be issued. During this period management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2012 consolidated financial statements, other than as discussed in Notes D and S.

New Accounting Pronouncements: In July 2011, the FASB issued ASU 2011-07, *Healthcare Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Healthcare Entities,* which requires certain healthcare entities reclassify the provision for bad debts associated with providing patient care from an operating expense to a deduction from net patient service revenue in the Consolidated

(Dollars in Thousands)

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Statements of Operations. Additionally, ASU 2011-07 requires enhanced disclosures about an entity's policies for recognizing revenue and assessing bad debts and qualitative and quantitative information about changes in the allowance for doubtful accounts. The Alliance retroactively adopted ASU 2011-07 in fiscal year 2012. The adoption of ASU 2011-07 did not have a material impact on the 2012 or 2011 consolidated financial statements.

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities – Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24). The amendments in ASU 2010-24 clarify that a healthcare entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. The Alliance adopted ASU 2010-24 prospectively during 2012. The adoption of ASU 2010-24 did not have a material impact on the consolidated financial statements.

In August 2010, the FASB issued ASU 2010-23, *Health Care Entities – Measuring Charity Care for Disclosure.* ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost, identified as the direct and indirect costs of providing the charity care, be used as the measurement basis for disclosure purposes. ASU 2010-23 also requires disclosure of the method used to identify or determine such costs. The Alliance adopted ASU 2010-23 in 2012. The adoption of ASU 2010-23 did not have a material impact on the consolidated financial statements.

Reclassifications: Certain 2011 amounts have been reclassified to conform with the 2012 presentation in the accompanying consolidated financial statements.

NOTE C--INVESTMENTS

Assets limited as to use are summarized by designation or restriction as follows at June 30:

	2012	*2011*
Designated or restricted:		
Under safekeeping agreements and other	$ 24,026	$ 28,349
Under guarantee agreements	-	92,720
By Board for capital improvements	4	4

(Dollars in Thousands)

NOTE C--INVESTMENTS - Continued

	2012	2011
Under bond indenture agreements:		
For debt service and interest payments	77,602	67,874
For capital acquisitions	29,578	28,835
	131,210	217,782
Less: amount required to meet current obligations	(36,557)	(116,175)
	$ 94,653	$ 101,607

Assets limited as to use consist of the following at June 30:

	2012	2011
Cash, cash equivalents and money market funds	$ 80,304	$ 115,579
U.S. Government securities	8,582	1,795
U.S. Agency securities	40,398	7,688
Municipal obligations	1,926	-
Guaranteed investment contract	-	92,720
	$ 131,210	$ 217,782

Trading securities consist of the following at June 30:

	2012	2011
Cash, cash equivalents and money market funds	$ 5,186	$ 29,159
U.S. Government securities	10,697	9,409
U.S. Agency securities	26,165	31,551
Corporate and foreign bonds	52,581	32,895
Municipal obligations	961	451
Preferred and asset backed securities	11,183	8,945
U.S. equity securities	28,344	21,774
Mutual funds	141,968	166,708
Other	34,880	32,718
	$ 311,965	$ 333,610

Held-to-maturity securities (other than assets limited as to use) are carried at amortized cost and consist of the following at June 30:

(Dollars in Thousands)

NOTE C--INVESTMENTS - Continued

	2012	2011
Cash, cash equivalents and money market funds	$ 298	$ 753
Corporate and foreign bonds	138,232	135,745
Municipal obligations	15,549	9,661
	$ 154,079	$ 146,159

Held-to-maturity securities had gross unrealized gains and losses of $11,432 and $33, respectively, at June 30, 2012 and $6,838 and $276, respectively at June 30, 2011. At June 30, 2012, the Alliance held no securities within the held-to-maturity portfolio which had been at an unrealized loss position for over one year. At June 30, 2011, the Alliance held nine securities within the held-to-maturity portfolio with a fair value and unrealized loss of $549 and $44, respectively, which had been at an unrealized loss position for over one year. At June 30, 2012, the contractual maturities of held-to-maturity securities were $11,225 due in one year or less, $67,532 due from one to five years and $75,322 due after five years. At June 30, 2011, the contractual maturities of held-to-maturity securities were $13,816 due in one year or less, $55,563 due from one to five years and $76,780 due after five years.

At June 30, 2012 and 2011, the Alliance held investments in certain limited partnerships and hedge funds of $34,880 and $32,718, respectively, that have a wide range of investment strategies with various levels of risk. These funds are included within trading securities and do not have readily determinable fair values. The funds are reported at estimated fair market value pursuant to FASB ASC 825, *Financial Instruments*.

NOTE D--DERIVATIVE TRANSACTIONS

The Alliance is a party to a number of derivative transactions. These derivatives have not been designated as hedges and are valued at estimated fair value in the accompanying Consolidated Balance Sheets. Management's primary objective in holding such derivatives is to introduce a variable rate component into its fixed rate debt structure. Under the terms of these agreements, changes in the interest rate environment could have a significant effect on the Alliance.

These derivative agreements require that the Alliance post additional collateral for the derivatives' fair market value deficits above specified levels. Such investments are included as assets limited as to use. As of June 30, 2012, management believes the Alliance was fully collateralized with respect to the derivative agreements and management does not believe such collateral is exposed to third-party credit risk.

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS - Continued

Interest Rate Swaps: The Alliance is a party to six interest rate swap agreements with Bank of America, Merrill Lynch as the counterparty. The terms of five of these agreements were modified without settlement during 2011. No gain or loss was realized as a result of the modifications although such modifications did impact the estimated fair value of the interest rate swaps. A liability, representing the estimated net fair value of these swaps, of $8,765 and $8,123 was recognized by the Alliance as of June 30, 2012 and 2011, respectively.

The following is a summary of five of these interest rate swap agreements at June 30, 2012:

			Payments by:		
Swap	Notional Amount	Term	Counterparty	Alliance	Estimated Fair Value
A	$ 170,000	4/2008-4/2026	1.265% through April 2013; 1.07% through April 2014; then 71.10% of USD-ISDA Swap Rate	0.00% through April 2014, then USD-SIFMA	$ 3,500
B	95,000	4/2008-4/2026	1.265% through April 2013; 1.08% through April 2014; then 71.18% of USD-ISDA Swap Rate	0.00% through April 2014, then USD-SIFMA	1,983
C	173,030	4/2008-4/2034	1.315% through April 2013; 1.12% through April 2014; then 72.35% of USD-ISDA Swap Rate	0.00% through April 2014, then USD-SIFMA	(513)
D	82,055	12/2007-7/2033	3.493% through July 2012; then 0% USD-LIBOR-BBA through July 2012, then 67% USD-LIBOR-BBA	4.41% through July 2012; then .312% USD-SIFMA	(9,520)
E	50,000	2/2008-7/2038	67.00% of USD-LIBOR-BBA plus .145%	USD-SIFMA	(3,895)

Deferred financing and acquisition costs, net of amortization, include $6,135 and $6,480 at June 30, 2012 and 2011, respectively, related to these swaps.

In addition to the interest rate swaps described above, the Alliance and Bank of America, Merrill Lynch are also parties to a total return swap. The notional amount of the total return swap is equal to the outstanding 2001A Hospital Revenue and Improvement Bonds which was $22,300 at June 30, 2012. The estimated fair value of the total return swap was $(320) and $(340) at June 30, 2012 and 2011, respectively. The terms of the swap were modified without settlement during 2012. No gain or loss was realized as a result of the modifications although such modifications did impact the swap's estimated fair value. The payment terms, as amended consist of the following:

NOTE D--DERIVATIVE TRANSACTIONS - Continued

- Beginning July 1, 2012, the Alliance will pay a variable rate of USD-SIFMA plus basis points ranging from 65 to 400, depending on the Alliance's bond rating as set forth by Standard and Poor's Ratings Service and Moody's Investors Service. The Alliance will receive a fixed rate of 4.50% and settlements will be made semi-annually through July 1, 2015.

- A "total return provision" under which the Alliance will pay (or receive) an amount equal to the product of the outstanding 2001A Reference Bonds multiplied by the difference between the outstanding 2001A Reference Bonds and the 2001A Reference Bonds' market price at termination, as defined in the agreement.

In addition to the six interest rate swaps discussed above, the Alliance is also a party to an interest rate swap with Regions Bank (the Regions swap) and an interest rate swap with First Tennessee Bank National Association (the FTB swap). The Regions swap was entered into in July 2011 and terminates in August 2012. The FTB swap was entered into in June 2010 and terminates in July 2015. The notional amounts of the Regions swap and FTB swap were $13,727 and $5,524, respectively, at June 30, 2012. A liability, representing the estimated net fair value of these swaps, of $221 was recognized by the Alliance as of June 30, 2012. The estimated fair value of the FTB swap was not significant at June 30, 2011.

The Alliance was previously a party to a total return swap with Lehman Brothers as the counterparty. Lehman Brothers filed for bankruptcy in September 2008. The Alliance subsequently received notification from Lehman Brothers Special Financing, Inc. indicating the intent of the counterparty to terminate this agreement effective January 1, 2009. The Alliance and Lehman Brothers Special Financing, Inc. were unable to reach a settlement agreement at the time the swap was terminated.

An estimated liability related to the agreement of $10,395 and $10,565 was recognized by the Alliance at June 30, 2012 and 2011. In addition, a third party holds investments with a fair market value of approximately $13,809 and $13,381, respectively, at June 30, 2012 and 2011 as collateral. The collateral and estimated liability related to this agreement are classified as current in the accompanying Consolidated Balance Sheets.

At June 30, 2012, the parties were undergoing alternate dispute resolution, including non-binding arbitration. Subsequent to year end, the parties reached a tentative settlement agreement. In full settlement of the liability, the Alliance will pay the counterparty $7,375 from the funds held as collateral and the remaining collateral will be returned to the Alliance.

NOTE D--DERIVATIVE TRANSACTIONS - Continued

Interest Rate Swap Option: In June 2004, the Alliance entered into an agreement with Bear Stearns (acquired by JP Morgan) whereby Bear Stearns purchased from the Alliance an option to enter into an interest rate swap agreement (swaption) with the Alliance beginning July 1, 2011, which is an optional redemption date related to the Alliance's early extinguished 2000A and 2000B Bonds (Note F). The purpose of this agreement was to effectively sell the call features related to the early extinguished Series 2000A and 2000B Bonds. As consideration under this agreement, the Alliance received a total of $42,500 in upfront payments as the swaption premium. Such amounts were initially recorded as estimated fair value of derivatives in the Consolidated Balance Sheets.

During 2012, the counterparty expressed their intent to exercise the swaption on January 1, 2012 and the Alliance exercised its right to terminate the swaption at its fair market value. The swaption was terminated on October 13, 2011. To effectuate the termination, the Alliance transferred $93,353 of a Guaranteed Investment Contract (GIC), described below, to the third party as a termination payment. A gain of $3,058 was recognized on the termination, which is included within other nonoperating gains (losses) in the accompanying 2012 Consolidated Statement of Operations.

A liability of $92,044, representing the estimated fair value of the swaption at June 30, 2011, respectively, is included in estimated fair value of derivatives in the accompanying 2011 Consolidated Balance Sheet. The change in estimated fair value of derivatives in the accompanying Consolidated Statements of Operations for 2012 and 2011 includes an unrealized loss of $4,676 and $2,394, respectively, related to this derivative, prior to termination.

Forward Sale Agreements: In June 2004, the Alliance entered into two related forward sale agreements with the counterparty to the swaption agreements and the Master Trustee of the Series 2000 Bonds. The forward sale agreements originally related to the Debt Service Reserve Fund and to the Debt Service Fund, respectively, (collectively, the "Funds"), as established under provisions of the Master Trust Indenture related to the issuance of the Series 2000 Bonds. In consideration of the future earnings on the Funds, the counterparty paid the Master Trustee a total of $30,000 during 2005, to be held on behalf of the Alliance. As the original intent of these Funds was to secure debt service payments under the above referenced Bonds, the agreement requires these funds to be held under a guaranty agreement as further described below.

In June 2006, one of these agreements was amended to also relate to the Series 2000C, 2000D, 2006A and 2006B Bonds, and to remove the Series 2000A Bonds from consideration under the agreement. In connection with the issuance of the Series 2007 Bonds and the derecognition of a portion of the Series 2000A Bonds, all of the outstanding Series 2000B Bonds, and all of the outstanding 2006B Bonds (Note F), one of these agreements as it relates to the Series 2000A and 2000B Bonds was partially terminated. As such, during 2008 the Alliance reduced its liability with respect to the portion related to the Series 2000A and 2000B Bonds, and paid the counterparty

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS - Continued

$6,186 under the terms of the agreement. The agreement was amended in fiscal year 2011 to include the Series 2010A Bonds and to remove the Series 2000B and 2006B Bonds.

Amounts were being recognized as investment income over the life of the agreements. A liability of $19,001 representing the unamortized payments from the counterparty at June 30, 2011 is included as part of deferred revenue in the accompanying 2011 Consolidated Balance Sheet.

In June 2012, the Alliance and the counterparty terminated the two forward sale agreements. To effectuate the termination, the Alliance agreed to pay $13,429 to the counterparty. At June 30, 2012, the termination payable was included in accounts payable and accrued expenses in the accompanying 2012 Consolidated Balance Sheet. The Alliance recognized a gain of $4,708 on the termination of these agreements, which is included within other nonoperating gains (losses) in the accompanying 2012 Consolidated Statement of Operations.

Pursuant to these agreements, the counterparty required that the Alliance's obligations under the swaption and forward sale agreements be collateralized under a guarantee agreement in favor of the counterparty. Due to various requirements of the Master Trust Indenture, the Alliance had previously transferred to MSF a total of $42,500 that was in turn deposited with the counterparty as collateral in a GIC. Amounts received under the forward sale agreements were also deposited into the GIC. All GIC deposits earn interest compounded at 4.14% for the first year, and at 3.5% thereafter through July 1, 2011. The GIC deposits as of June 30, 2011 totaled $92,720. The GIC was substantially utilized on October 13, 2011 to terminate the swaption discussed above and, as such, is included in the current portion of assets whose use is limited in the 2011 Consolidated Balance Sheet.

NOTE E--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30:

	2012	*2011*
Land	$ 69,356	$ 63,749
Buildings and leasehold improvements	661,146	454,852
Property and improvements held for leasing	74,914	80,568
Equipment	571,774	532,767
Buildings and equipment held under capital lease	20,540	42,720
	1,397,730	1,174,656

(Dollars in Thousands)

NOTE E--PROPERTY, PLANT AND EQUIPMENT - Continued

	2012	2011
Less: Allowances for depreciation and amortization	(626,552)	(586,471)
	771,178	588,185
Construction in progress (Note N)	94,278	209,233
	$ 865,456	$ 797,418

Accumulated depreciation and amortization on property and improvements held for leasing purposes is $22,951 and $23,348 at June 30, 2012 and 2011, respectively. Net interest capitalized was $3,110 and $10,640 for the years ended June 30, 2012 and 2011, respectively.

During 2012, the Alliance executed an Amendment and Mutual Release Agreement with a vendor whereby the Alliance waived its right to take any action with respect to prior contracts in exchange for professional services in future periods, primarily related to accelerated deployment of information systems. The Alliance recognized approximately $3,200 in 2012 as additions to property, plant and equipment with an offsetting gain related to the agreed-upon value of such professional services. The Alliance anticipates recognition of additional amounts in future periods as such services are provided.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt and capital lease obligations consist of the following at June 30:

			Outstanding Balance	
Description	***Maturities***	***Rates***	***2012***	***2011***
2011A Hospital Revenue Bonds	$65,260 uninsured term bonds, due July 1, 2033, subject to early redemption or tender	Variable, 0.19% at June 30, 2012	$ 65,260	$ -
2011B Hospital Revenue Bonds	$20,000 uninsured term bonds, due July 1, 2033, subject to early redemption or tender	Variable, 0.19% at June 30, 2012	20,000	-
2011C Hospital Revenue Bonds	$49,875 uninsured term bonds, due July 1, 2031, subject to early redemption or tender	Variable, 0.16% at June 30, 2012	49,875	-
2011D Hospital Revenue Bonds	$60,705 uninsured term bonds, due July 1, 2031, subject to early redemption or tender	Variable, 0.19% at June 30, 2012	60,705	-
2011E Taxable Bonds	$15,960 uninsured term bonds, due July 1, 2026, subject to early redemption or tender	Variable, 0.24% at June 30, 2012	15,960	-
2011 Hospital Facility Revenue Refunding and Improvement Bonds (JMH)	$24,870 uninsured term bonds, due July 1, 2033, subject to early redemption or tender	Variable, 1.2% at June 30, 2012	24,870	-
2010A Hospital Revenue Bonds, net of unamortized premium of $1,017 and $1,056 at June 30, 2012 and 2011, respectively	$32,515 uninsured serially, through 2020 $14,985 uninsured term bonds, due July 1, 2025 $19,385 uninsured term bonds, due July 1, 2030 $39,570 uninsured term bonds, due July 1, 2038 $55,480 uninsured term bonds, due July 1, 2038	3.00% to 5.00% 5.38% 5.63% 6.50% 6.00%	162,952	169,137

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Description	Maturities	Rates	Outstanding Balance 2012	Outstanding Balance 2011
2010B Hospital Revenue Bonds, net of unamortized premium of $669 and $711 at June 30, 2012 and 2011, respectively	$23,855 uninsured serially, through 2020 $4,355 uninsured term bonds, due July 1, 2023 $4,250 uninsured term bonds, due July 1, 2028	2.50% to 5.00% 5.00% 5.50%	33,129	36,646
2009A Hospital Revenue Bonds, net of unamortized discount of $117 and $121 at June 30, 2012 and 2011, respectively	$725 uninsured term bonds, due July 1, 2019 $1,730 uninsured term bonds, due July 1, 2029 $3,105 uninsured term bonds, due July 1, 2038	7.25% 7.50% 7.75%	5,443	5,439
2009B Hospital Revenue Bonds	$5,535 uninsured term bonds, due July 1, 2038	8.00%	5,535	5,535
2009C Hospital Revenue Bonds, net of unamortized discount of $2,334 and $2,421 at June 30, 2012 and 2011, respectively	$21,100 uninsured term bonds, due July 1, 2019 $20,000 uninsured term bonds, due July 1, 2029 $74,855 uninsured term bonds, due July 1, 2038	7.25% 7.50% 7.75%	113,621	113,534
2008A Hospital Revenue Bonds	$13,245 uninsured term bonds, due July 1, 2038, subject to early redemption or tender	Variable, 0.19% at June 30, 2012	13,245	13,245
2008B Hospital Revenue Bonds	$52,930 uninsured term bonds, due July 1, 2038, subject to early redemption or tender	Variable, 0.19% at June 30, 2012	52,930	53,855
2007B Taxable Hospital Revenue Bonds, bifurcated into sub-series B-1, B-2 and B-3 during 2011	$156,760 uninsured term bonds, due July 1, 2033, subject to early redemption or tender	Variable, 0.20% to 0.23% at June 30, 2012	156,760	307,900
2006A Hospital First Mortgage Revenue Bonds, net of unamortized premium of $141 and $147 at June 30, 2012 and 2011, respectively	$5,940 uninsured serially, through 2019 $7,375 uninsured term bonds, due July 1, 2026 $20,505 uninsured term bonds, due July 1, 2031 $135,175 uninsured term bonds, due July 1, 2036	5.00% 5.25% 5.50% 5.50%	169,136	169,782
2001A Hospital First Mortgage Revenue Bonds, re-issued in 2012	$22,300 term bonds, due July 1, 2026, subject to early redemption or tender	4.50% as re-issued	22,300	23,100
2001 Hospital Refunding and Improvement Revenue Bonds (NCH), net of unamortized discount of $34 June 30, 2011	Redeemed in 2012	N/A	-	11,876
2000A Hospital First Mortgage Revenue Refunding Bonds	$32,431 insured Capital Appreciation Bonds, interest and principal due July 1, 2026 through 2030	6.63%	32,431	30,358
2000C Hospital First Mortgage Revenue Bonds	$33,230 insured term bonds, due July 1, 2026	8.50%	33,230	34,325
2000D First Mortgage Taxable Bonds	$14,315 insured term bonds, due July 1, 2026	8.50%	14,315	14,790
1998 Hospital Refunding and Improvement Revenue Bonds (JMH)	Redeemed in 2012	N/A	-	14,115
Capitalized lease obligation	Lease paid-off in 2012	N/A	-	13,656
$7,500 promissory note	Note paid-off in 2012	N/A	-	5,473
Capitalized lease obligations secured by equipment	Various monthly payments of monthly principal and interest	Various	1,645	2,518
$1,065 note payable	Note paid-off in 2012	N/A	-	572
$6,332 promissory note	Promissory note paid-off in 2012	N/A	-	5,945
$3,955 note payable	Note paid-off in 2012	N/A	-	3,743
Notes payable under Master Financing Agreement	Notes paid-off in 2012	N/A	-	14,011
$1,885 line of credit	Line of credit paid-off in 2012	N/A	-	1,873
$1,593 note payable, secured by equipment	Various annual principal payments through July 2014	Unspecified	1,343	1,593
Capitalized lease obligation secured by medical office building (JMH)	Maturing through 2026 - Note S	9.72%	15,498	15,952
Master installment payment agreement	Various quarterly payments through May 2014	Unspecified	4,438	112

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Description	*Maturities*	*Rates*	*Outstanding Balance* 2012	2011
Master installment payment agreement, secured by equipment	Various quarterly payments through May 2014	Unspecified	3,032	-
$1,870 note payable, secured by land	Monthly principal payments of $10 through maturity in July 2015	Unspecified	1,870	-
$1,052 in promissory notes secured by assets of Emmaus Community Healthcare, LLC	Various monthly principal and interest payments through 2019	3.00% - 3.75%	1,052	-
			1,080,575	1,069,085
	Less current portion		(32,477)	(28,162)
			$ 1,048,098	$ 1,040,923

Series 2011 Bonds: In October 2011, the Alliance issued $65,260 (Series 2011A) and $20,000 (Series 2011B) variable rate tax-exempt Hospital Revenue Bonds through The Health and Educational Facilities Board of the City of Johnson City, Tennessee, $49,875 (Series 2011C) and $60,705 (Series 2011D) variable rate tax-exempt Hospital Revenue Bonds through the Industrial Development Authority of Smyth, Virginia and $15,960 (Series 2011E) variable rate Taxable Bonds (collectively, the Series 2011 Bonds). The Series 2011 Bonds bear interest at a variable rate determined by a remarketing agent based upon a weekly rate period. The proceeds from the Series 2011A and Series 2011B Bonds were used to finance certain capital acquisitions in the State of Tennessee and pay issuance costs related to these Bonds. The proceeds from the Series 2011C and 2011D Bonds were used to refinance the 2001 NCH Hospital Refunding and Improvement Revenue Bonds, finance capital acquisitions for NCH, JMH and SCCH and to pay issuance costs associated with these Bonds. The Series 2011E Bond proceeds were used to refinance certain capital acquisitions of SCCH and BRMMC and pay issuance costs. The timely payment of the Series 2011 Bonds is secured by a letter of credit which expires October 19, 2014.

In November 2011, JMH issued $24,870 (JMH Series 2011) variable rate tax-exempt Hospital Facility Revenue Refunding and Improvement Bonds through the Industrial Development Authority of Smyth County. The JMH Series 2011 Bonds bear interest at a variable rate determined by a remarketing agent based upon a weekly rate period. The proceeds from the JMH Series 2011 Bonds were used to refinance the 1998 Hospital Refunding and Improvement Revenue Bonds, refinance existing indebtedness incurred to finance capital acquisitions and to pay issuance costs associated with the Bonds.

Series 2010 Bonds: In April 2010, the Alliance issued $168,080 (Series 2010A) and $35,935 (Series 2010B) fixed rate Hospital Refunding Revenue Bonds (collectively, the Series 2010 Bonds). Proceeds of the Series 2010A and the Series 2010B Bonds were used to refinance outstanding indebtedness, specifically related to the Alliance's facilities in Tennessee and in Virginia, respectively, fund debt service reserve funds and pay costs of issuance.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Series 2009 Bonds: In March 2009, the Alliance issued $5,560 (Series 2009A), $5,535 (Series 2009B) and $115,955 (Series 2009C) fixed rate Hospital Revenue Bonds (collectively, the Series 2009 Bonds). The proceeds of Series 2009 Bonds were used to refinance a portion of the outstanding Series 2006C Taxable Notes, which were originally issued to finance a capital commitment to SCCH and purchase certain leased assets, finance the acquisition of a majority ownership in JMH, fund a debt service reserve fund and pay costs of issuance. The portion of the 2006C taxable notes which were not refinanced with the Series 2009 Bonds were repaid with cash on hand.

Series 2008 Bonds: In February 2008, the Alliance issued $72,770 (Series 2008A) and $54,230 (Series 2008B) variable rate Hospital Revenue Bonds (collectively, the Series 2008 Bonds). The proceeds of Series 2008 Bonds were primarily used to finance certain future capital projects for the Alliance's hospital facilities and for the repayment of previously issued 2008 Taxable Notes used for the acquisition of RCMC. The payment of principal and interest on the Series 2008 Bonds and the purchase price of any tendered bonds on each series are secured by a separate, irrevocable, transferable, direct-pay letter of credit. A portion ($59,525) of the Series 2008A Bonds were repaid from proceeds of the Series 2010 Bonds.

Series 2007 Bonds: In December 2007, the Alliance issued $104,355 (Series 2007A), $327,170 (Series 2007B taxable) and $36,575 (Series 2007C) variable rate Hospital Revenue Bonds (collectively, the Series 2007 Bonds). The proceeds of Series 2007 Bonds were primarily used to early extinguish a portion of the outstanding Series 2000A Bonds, all of the outstanding 2000B Bonds, all of the outstanding Series 1994 Bonds, and all of the outstanding Series 2006B Bonds; to finance the acquisition of a majority ownership in NCH, and to finance certain capital improvements and equipment acquisitions for the Alliance's hospital facilities. A portion of the outstanding Series 2007A ($91,685) and Series 2007C ($32,840) Bonds were repaid from proceeds of the Series 2010 Bonds.

During 2011, the remaining outstanding Series 2007A and Series 2007C Bonds were redeemed and the existing 2007B Bonds were repaid through a remarketing of Sub-Series 2007B-1, 2007B-2 and 2007B-3 (collectively, the Sub-Series 2007B Bonds), created per the mandatory tender and letter of credit substitution provisions. The payment of principal and interest on the Sub-Series 2007B Bonds and the purchase price of any tendered bonds on each series are secured by a separate, irrevocable, transferable, direct-pay letter of credit.

During 2012, the Alliance redeemed $115,135 of the Series 2007B-1 Bonds and $29,405 of the Series 2007B-3 Bonds.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Series 2006 Bonds: During 2006, the Alliance issued $173,030 Hospital First Mortgage Revenue Bonds (Series 2006A) and $66,500 Hospital First Mortgage Variable Rate Revenue Bonds (Series 2006B). The proceeds from the sale of the Series 2006A Bonds were used to finance certain future and prior capital projects for the Alliance's hospital facilities and to refund certain existing indebtedness, specifically the Series 2001B Bonds (discussed below) and certain existing short and intermediate term loans and leases, as well as fund a debt service reserve fund. The Series 2006B Bond proceeds were substantially used to refund the remaining outstanding principal of the Series 2001B Bonds and establish a debt service reserve fund.

Series 2001 Bonds: During 2001, the Alliance issued $26,000 Hospital First Mortgage Revenue Bonds (Series 2001A) and $60,175 Hospital First Mortgage Revenue Bonds (Series 2001B). The Series 2001A Bonds were subject to optional tender by Bond holders. The Series 2001B Bonds were refunded and redeemed in 2006. The Alliance redeemed the 2001A Bonds and released a new Series 2001A to Bank of America Merrill Lynch during 2012.

Series 2000 Bonds: The Hospital First Mortgage Revenue Refunding (Series 2000A Bonds) and First Mortgage Revenue Refunding Bonds (Series 2000B Bonds), were used to advance refund previously existing indebtedness as well as fund a required debt service reserve fund. The Hospital First Mortgage Revenue Bonds (Series 2000C Taxable Bonds) were used to refinance certain mortgage indebtedness of BRMM, and to refund other previously existing indebtedness. The proceeds from the sale of the First Mortgage Bonds (Series 2000D Taxable Bonds) were used primarily to fund working capital for the Alliance.

The Series 2000A Bonds included at issue date $14,680 of insured Capital Appreciation Bonds. Such bonds bear a 0% coupon rate and have a yield of 6.625% annually. The Alliance recognizes interest expense and increases the amount of outstanding debt each year based upon this yield. Total principal and interest due at maturity (2026 through 2030) is $93,675.

Derecognized Bonds: The advance refunding of previously issued debt requires funds to be placed in irrevocable trusts in order to satisfy remaining scheduled principal and interest payments. Management, upon advice of legal counsel, believes the amounts deposited in such irrevocable trust accounts have contractually relieved the Alliance of any future obligations with respect to this debt, and the debt and escrowed securities are not considered liabilities or assets of the Alliance. Therefore, such debt has been derecognized.

Debt outstanding and not recognized in the Consolidated Balance Sheet at June 30, 2012 due to previous advance refundings of the Series 2000A Bonds, Series 2000B Bonds, Series 1998C Bonds, and Series 1991 Bonds, totaled approximately $483,625.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

The assets placed in the irrevocable trust accounts are also not recognized as assets of the Alliance. These assets consist primarily of various investments, as permitted by bond indentures and other documents, including United States Treasury obligations, an investment contract with MBIA Insurance Corporation (MBIA) in the original amount of $54,300, as well as the Series 2000C and 2000D Bonds which were purchased with the proceeds of the 2000A and 2000B Bonds specifically for the purpose of utilizing the Series 2000C and 2000D Bonds in the irrevocable trust. Therefore, certain of the assets held in the irrevocable trust accounts have future income streams contingent upon payments by the Alliance.

During 2012, the Alliance instructed the trustee of the 1998C Bonds to liquidate certain investments held in the related irrevocable trust account and to redeem a portion of the 1998C Bonds with the proceeds from the liquidation. The fair value of the liquidated assets exceeded the payment necessary to redeem the 1998C Bonds and the excess was paid to the Alliance. As a result of this transaction, the Alliance recognized a gain of $5,337, net of fees, which is included in other nonoperating gains (losses) in the accompanying 2012 Consolidated Statement of Operations.

Variable Rate Issuances: The variable rate of interest on the Series 2011, Series 2008 and Series 2007 Bonds is determined weekly by the Remarketing Agent, as the rate equal to the lowest rate which, in regard to general financial conditions and other special conditions bearing on the rate, would produce as nearly as possible a par bid for the Bonds in the secondary market. In no event shall the variable rate on the Bonds during any period where interest is calculated weekly exceed the lesser of 12% annually or the maximum contract rate of interest permitted by the applicable State of issue. The Alliance has the option, upon written approval of the holder of the letters of credit, the Remarketing Agent and others, to convert to a medium-term rate period or to a fixed rate.

Early Redemption: Essentially all of the Alliance's bonds are subject to redemption prior to maturity, including optional, mandatory sinking fund and extraordinary redemption, at various dates and prices as described in the respective Bond indentures and other documents.

Other Bonds, Notes Payable and Financing Arrangements: The Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding Bonds. The Bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. The JMH Series 2011 Hospital Refunding and Improvement Revenue Bonds are secured by pledged revenues of JMH, as defined in the Credit Agreement.

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

The scheduled maturities and mandatory sinking fund payments of the long-term debt and capital lease obligations (excluding interest), exclusive of net unamortized original issue discount and premium, at June 30, 2012 are as follows:

Year Ending June 30,		
2013	$	32,477
2014		33,414
2015		29,932
2016		31,315
2017		31,006
Thereafter		923,055
		1,081,199
Net discount		(624)
	$	1,080,575

The Alliance and JMH are each members of separate Obligated Groups. The bond indentures, master trust indentures, letter of credit agreements and loan agreements related to the various bond issues and notes payable contain covenants with which the respective Obligated Groups must comply. These requirements include maintenance of certain financial and liquidity ratios, deposits to trustee funds, permitted indebtedness, use of facilities and disposals of property. These covenants also require that failure to meet certain debt service coverage tests will require the deposit of all daily cash receipts of the Alliance into a trust fund. Management has represented the Alliance and JMH are in compliance with all such covenants at June 30, 2012.

In connection with the tax-exempt bonds, the Alliance is required every five years, and at maturity, to remit to the Internal Revenue Service amounts which are due related to positive arbitrage on the borrowed funds. The Alliance performs such computations when required and recognizes any liability at that time. Management does not believe there are any significant arbitrage liabilities at June 30, 2012 or 2011.

During 2012, the Alliance recognized a $2,636 loss on early extinguishment of debt representing the write off of previously deferred and unamortized financing costs generally related to the refinanced or otherwise redeemed portion of the Series 2007B Bonds, Series 1998 JMH Bonds and the Series 2001 NCH Bonds.

(Dollars in Thousands)

NOTE G--SELF-INSURANCE PROGRAMS

The Alliance is substantially self-insured for professional and general liability claims and related expenses. The Alliance maintains a $25,000 umbrella liability policy that attaches over the self-insurance limits of $10,000 per claim and a $15,000 annual aggregate retention. The Alliance's insurance program also provides professional liability coverage for certain affiliates and joint ventures.

The Alliance is also substantially self-insured for workers' compensation claims in the State of Tennessee and has established estimated liabilities for both reported and unreported claims. The Alliance maintains a stop-loss policy that attaches over the self-insurance limits of $1,000 per occurrence and $1,000 annual aggregate retention. In the State of Virginia, the Alliance is not self-insured and maintains workers' compensation insurance through commercial carriers.

At June 30, 2012, the Alliance is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through June 30, 2012 that may result in the assertion of additional claims, and other unreported claims may be asserted arising from services provided in the past. Alliance management has estimated and accrued for the cost of these unreported claims based on historical data and actuarial projections. The estimated net present value of malpractice and workers' compensation claims, both reported and unreported, as of June 30, 2012 and 2011 was $12,896 and $13,531, respectively. The discount rate utilized was 5% at June 30, 2012 and 2011.

Additionally, the Alliance is self-insured for employee health claims and recognizes expense each year based upon actual claims paid and an estimate of claims incurred but not yet paid, including a catastrophic claims reserve based on historical claims in excess of $75.

NOTE H--NET PATIENT SERVICE REVENUE

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the accompanying Consolidated Statements of Operations is as follows for the years ended June 30:

	2012	*2011*
Inpatient service charges	$ 2,095,036	$ 1,983,340
Outpatient service charges	1,982,154	1,791,858
Gross patient service charges	4,077,190	3,775,198

(Dollars in Thousands)

NOTE H--NET PATIENT SERVICE REVENUE - Continued

		2012		2011
Less:				
Estimated contractual adjustments and other discounts		2,899,678		2,640,909
Charity care		102,462		72,166
Provision for bad debts		122,917		116,248
		3,125,057		2,829,323
Net patient service revenue	$	952,133	$	945,875

Net patient service revenue by major payor source for the years ended June 30, 2012 and 2011, net of contractual allowances and self-pay discounts (before the provision for bad debts), is as follows:

		2012		2011
Third-party payors	$	968,101	$	957,828
Self-pay		106,949		104,295
Patient service revenue	$	1,075,050	$	1,062,123

Deductibles and copayments under third-party payment programs, which are included within the third-party payor amounts above, are the patient's responsibility and the Alliance considers these amounts in its determination of the provision for bad debts based on prior collection experience. Accounts receivable are also reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Alliance analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Alliance analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary, for expected uncollectible deductibles and copayments or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Alliance records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

NOTE H--NET PATIENT SERVICE REVENUE - Continued

The Alliance's allowance for doubtful accounts totaled $52,911 and $53,366 at June 30, 2012 and 2011, respectively. The allowance for doubtful accounts decreased from 28% of patient accounts receivable, net of contractual allowances, at June 30, 2011 to 26% of patient accounts receivable, net of contractual allowances, as of June 30, 2012. Write-offs, net of recoveries, for the years ending June 30, 2012 and 2011 were $123,373 and $108,823, respectively, and relate primarily to self-pay patients. Write-offs of third-party payor accounts were not significant in the years ending June 30, 2012 and 2011. The Alliance has not experienced significant changes in write-off trends and has not changed its charity care policy for the year ended June 30, 2012. The provision for bad debts associated with the Alliance's ancillary service lines are not significant.

NOTE I--THIRD-PARTY REIMBURSEMENT

The Alliance renders services to patients under contractual arrangements with Medicare, Medicaid, TennCare, Blue Cross and various other commercial payors. The Medicare program pays for inpatient services on a prospective basis. Payments are based upon diagnosis related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. The Alliance also receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid and other low income patients. Most Medicare outpatient services are reimbursed on a prospectively determined payment methodology. The Medicare program also reimburses certain other services on the basis of reasonable cost, subject to various prescribed limitations and reductions.

Reimbursement under the State of Tennessee's Medicaid waiver program (TennCare) for inpatient and outpatient services is administered by various managed care organizations (MCOs) and is based on diagnosis related group assignments, a negotiated per diem or fee schedule basis. The Alliance also receives additional supplemental payments from the State of Tennessee. The amount recognized totaled $11,300 and $11,480 for the years ended June 30, 2012 and 2011, respectively. In addition, during 2012 the Alliance recognized $4,894 from TennCare related to the implementation and meaningful use of electronic medical records as provided by the Health Information Technology for Economics and Clinical Health (HITECH) Act. Such payments are included within other operating revenue in the accompanying 2012 Consolidated Statement of Operations and are not guaranteed in future periods.

The Virginia Medicaid program reimbursement for inpatient hospital services is based on a prospective payment system using both a per case and per diem methodology. Additional payments are made for the allowable costs of capital. Payments for outpatient services are based on Medicare cost reimbursement principles and settled through the filing of an annual Medicaid cost report.

NOTE I--THIRD-PARTY REIMBURSEMENT - Continued

Amounts earned under the contractual agreements with the Medicare and Medicaid programs are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. 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. Activity with respect to audits and reviews of the governmental programs in the healthcare industry has increased and is expected to increase in the future. No additional specific reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts. Management believes that any adjustments from these increased audits and reviews will not have a material adverse impact on the consolidated financial statements. However, due to uncertainties in the estimation, it is at least reasonably possible that management's estimate will change in 2013, although the amount of any change cannot be estimated. The impact of final settlements of cost reports or changes in estimates decreased net patient service revenue by $1,556 and $4,570 in 2012 and 2011, respectively.

Participation in the Medicare program subjects the Alliance to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the program. Management believes that adequate provision has been made for any adjustments, fines or penalties which may result from final settlements or violations of other rules or regulations. Management has represented that the Alliance is in substantial compliance with these rules and regulations as of June 30, 2012.

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

NOTE J--EMPLOYEE BENEFIT PLANS

The Alliance sponsors a retirement plan (the Plan) which covers substantially all employees. The Plan is a defined contribution plan which consists mainly of employer-funded contributions. During 2012 and 2011, the Alliance made contributions to the Plan under a stratified system, whereby the Alliance's contribution percentage is based on each employee's years of service. Employees of certain other subsidiaries are covered by other plans, although such plans are not significant. The total expense related to defined contribution plans for the years ended June 30, 2012 and 2011 was $15,072 and $12,682, respectively.

NCH maintains a defined benefit pension plan and a post-retirement employee benefit plan. The accrued unfunded pension liability was $2,560 and $1,313, and the accrued unfunded post-retirement liability was $4,554 and $3,761 at June 30, 2012 and 2011, respectively.

(Dollars in Thousands)

NOTE J--EMPLOYEE BENEFIT PLANS - Continued

The Alliance sponsors a secured executive benefit program (SEBP) for certain key executives. Contributions to the plan by the Alliance are based on an annual amount of funding necessary to produce a target benefit for the participants at their retirement date, although the Alliance does not guarantee any level of benefit will be achieved. The Alliance contributed $1,734 and $929 to the plan during 2012 and 2011, respectively. Other assets at June 30, 2012 and 2011 include $9,675 and $7,888, respectively, related to the Alliance's portion of the benefits which are recoverable upon the death of the participant. In addition, the Alliance sponsors a Section 457(f) plan for certain key executives.

NOTE K--CONCENTRATIONS OF RISK

The Alliance has locations primarily in upper East Tennessee and Southwest Virginia which is considered a geographic concentration. The Alliance grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Net patient service revenue from Washington County, Tennessee operations were approximately 53% and 53% of total net patient service revenue for 2012 and 2011, respectively.

The mix of receivables from patients and third-party payors based on charges at established rates is as follows as of June 30:

	2012	*2011*
Medicare	36%	40%
Tenncare/Medicaid	14%	12%
Commercial	26%	27%
Other third-party payors	13%	9%
Patients	11%	12%
	100%	100%

Approximately 96% and 96% of the consolidated total revenue, gains and support were related to the provision of healthcare services during 2012 and 2011, respectively. Admitting physicians are primarily practitioners in the regional area.

Two of the Alliance's Virginia hospitals' employees are covered under collective bargaining agreements which extend through February 2014 and January 2015, respectively.

The Alliance routinely invests in investment vehicles as listed in Note C. The Alliance's investment portfolio is managed by outside investment management companies. Investments in corporate and

NOTE K--CONCENTRATIONS OF RISK - Continued

foreign bonds, municipal obligations, money market funds, equities and other vehicles that are held by safekeeping agents are not insured or guaranteed by the U.S. government. At June 30, 2012, the Alliance also had deposits in financial institutions significantly in excess of the Federal Deposit Insurance Corporation's limits.

NOTE L--INCOME TAXES

BRMM and its subsidiaries file a consolidated federal tax return and separate state tax returns. As of June 30, 2012 and 2011, BRMM and its subsidiaries had net operating loss carryforwards for consolidated federal purposes of $38,888 and $34,822, respectively, related to operating loss carryforwards which expire through 2031. At June 30, 2012 and 2011, BRMM had state net operating loss carryforwards of $69,999 and $65,979, respectively, which expire through 2026. The net operating loss carryforwards may be offset against future taxable income to the extent permitted by the Internal Revenue Code and Tennessee Code Annotated.

At June 30, 2012 and 2011, SWCH had federal and state net operating loss carryforwards of $5,614 and $4,875, respectively, which expire through 2031. The net operating loss carryforwards may be off-set against future taxable income to the extent permitted by the Internal Revenue Code and tax codes of the Commonwealth of Virginia.

Net deferred tax assets related to these carryforwards and other deferred tax assets have been substantially offset through valuation allowances equal to these amounts. Income taxes paid relate primarily to state taxes for certain subsidiaries and federal alternative minimum tax.

NOTE M--RELATED PARTY TRANSACTIONS

The Alliance enters into transactions with entities affiliated with certain members of the Board of Directors including transactions to construct Alliance facilities and provide professional services to the Alliance. Board members refrain from discussion and abstain from voting on transactions with entities with which they are related.

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES

Construction in Progress: Construction in progress at June 30, 2012 represents costs incurred related to various hospital and medical office building facility renovations and additions. The Alliance has outstanding contracts and other commitments related to the completion of these

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES - Continued

projects, and the cost to complete these projects is estimated to be approximately $100,312 at June 30, 2012. The Alliance does not expect any significant costs to be incurred for infrastructure improvements to assets held for resale.

Physician Contracts: BRMM employs physicians to provide services to BRMM's physician practices through employment agreements which provide annual compensation, plus incentives based upon specified productivity levels. These contracts have various terms.

In addition, the Alliance has entered into contractual relationships with non-employed physicians to provide services in Upper East Tennessee and Southwest Virginia. These contracts guarantee certain base payments and allowable expenses and have terms of varying lengths. Amounts drawn and outstanding under each agreement are treated as a loan bearing interest at various rates and are subject to repayment over a specified period. The physician notes may also be amortized by virtue of the physician's continued practice in the specified community during the repayment period. A net receivable of $1,436 and $1,407 related to these agreements is included in the accompanying Consolidated Balance Sheets at June 30, 2012 and 2011, respectively.

Employee Scholarships: The Alliance offers scholarships to certain individuals which require that the recipients return to the Alliance to work for a specified period of time after they complete their degree. Amounts due are then forgiven over a specific period of time as provided in the individual contracts. If the recipient does not return and work the required period of time, the funds disbursed on their behalf become due immediately and interest is charged until the funds are repaid. Other receivables at June 30, 2012 and 2011 include $8,005 and $7,250, respectively, related to students in school, graduates working at the Alliance and amounts due from others who are no longer in the scholarship program, net of allowance.

Promises to Give: The Alliance has recorded certain unconditional promises to give to unrelated organizations. At June 30, 2012, $1,354 is due within one year, and an additional $100 is due within five years and is included in other long-term liabilities.

Operating Leases and Maintenance Contracts: Total lease expense for the years ended June 30, 2012 and 2011 was $8,823 and $9,362, respectively. Future minimum lease payments for each of the next five years and in the aggregate for the Alliance's noncancellable operating leases with remaining lease terms in excess of one year are as follows:

(Dollars in Thousands)

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES - Continued

Year Ending June 30,		
2013	$	4,661
2014		4,476
2015		4,253
2016		3,997
2017		2,332
Thereafter		8,008
	$	27,727

Asset Retirement Obligation: The Alliance has identified asbestos in certain facilities and is required by law to dispose of it in a special manner if the facility undergoes major renovations or is demolished; otherwise, the Alliance is not required to remove the asbestos from the facility. The Alliance has complied with regulations by treating the asbestos so that it presents no known immediate or future safety concerns. An asset retirement obligation has been established to the extent that sufficient information exists upon which to estimate the liability.

Other: The Alliance is a party to various transactions and agreements in the normal course of business, which include purchase and re-purchase agreements, put arrangements and other commitments, which may bind the Alliance to undertake additional transactions or activities in the future. In addition, the Alliance has agreed to guarantee a portion of the outstanding indebtedness of a joint venture. Management estimates that the fair value of the guarantee of this debt is immaterial as of June 30, 2012.

Healthcare Industry: Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

In March 2010, Congress adopted comprehensive health care insurance legislation, *Patient Care Protection and Affordable Care Act* and *Health Care and Education Reconciliation Act*. The legislation, among other matters, is designated to expand access to coverage to substantively all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing TennCare and Medicaid coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

(Dollars in Thousands)

NOTE O--RENTAL INCOME UNDER OPERATING LEASES

The Alliance leases rental properties to third parties, most of whom are physician practices, for various terms, generally five years. The following is a schedule by year and in the aggregate of minimum future rental income due under noncancellable operating leases at June 30, 2012:

Year Ending June 30,		
2013	$	1,574
2014		1,454
2015		1,339
2016		762
2017		405
Thereafter		116
Total minimum future rentals	$	5,650

NOTE P--FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Alliance using available market information as of June 30, 2012 and 2011, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Alliance could realize in a current market exchange. The carrying value of substantially all financial instruments approximates fair value due to the nature or term of the instruments, except as described below.

Investment in Joint Ventures: It is not practical to estimate the fair market value of the investments in joint ventures.

Other Long-Term Liabilities: Estimates of reported and unreported professional liability claims, pension and post-retirement liabilities are discounted to approximate their estimated fair value. It is not practical to estimate the fair market value of other long-term liabilities due to uncertainty of when these amounts may be paid. Other long-term liabilities are not discounted.

Long-Term Debt and Capital Leases: The fair value of long-term debt is estimated based upon quotes obtained from brokers for bonds and discounted future cash flows using current market rates for other debt. For long-term debt with variable interest rates, the carrying value approximates fair value.

The Alliance's significant capital leases and vendor contracts were negotiated with various entities and are considered unique. It is not practicable to estimate the fair value of these obligations under current conditions. Other capital lease obligations are not significant.

(Dollars in Thousands)

NOTE P--FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The estimated fair value of the Alliance's financial instruments that have carrying values different from fair value is as follows at June 30:

	2012		*2011*	
	Carrying Value	***Estimated Fair Value***	***Carrying Value***	***Estimated Fair Value***
FINANCIAL LIABILITIES:				
Long-term debt	$ 1,080,575	$ 1,150,201	$ 1,069,085	$ 1,046,675

NOTE Q--FAIR VALUE MEASUREMENT

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation 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 based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

  Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The Alliance's Level 2 investments are valued primarily using the market valuation approach.

- Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Alliance's own assumptions.

In instances where the determination of the fair value hierarchy 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 Alliance'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.

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of June 30, 2012 and 2011:

(Dollars in Thousands)

NOTE Q--FAIR VALUE MEASUREMENT - Continued

		Total		Level 1		Level 2		Level 3
June 30, 2012								
Cash, cash equivalents and money market funds	$	85,017	$	85,017	$	-	$	-
U.S. Government securities		15,693		15,693		-		-
U.S. Agency securities		62,437		62,437		-		-
Corporate and foreign bonds		52,581		-		52,581		-
Municipal obligations		961		-		961		-
Preferred and asset backed securities		11,183		-		11,183		-
U.S. equity securities		28,344		28,344		-		-
Mutual funds		141,968		97,600		44,368		
Other		34,880		-		-		34,880
Total assets	$	433,064	$	289,091	$	109,093	$	34,880
Fair value of derivative agreements - Note D	$	(19,381)	$	-	$	-	$	(19,381)
June 30, 2011								
Cash, cash equivalents and money market funds	$	142,031	$	142,031	$	-	$	-
U.S. Government securities		11,204		11,204		-		-
U.S. Agency securities		34,054		34,054		-		-
Corporate and foreign bonds		32,895		-		32,895		-
Municipal obligations		451		-		451		-
Preferred and asset backed securities		8,945		-		8,945		-
U.S. equity securities		21,774		21,774		-		-
Mutual funds		166,708		73,060		93,648		-
Other		32,718		-		-		32,718
Total assets	$	450,780	$	282,123	$	135,939	$	32,718
Fair value of derivative agreements - Note D	$	(110,732)	$	-	$	-	$	(110,732)

The valuation of the Alliance's derivative agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses certain observable market-based inputs. The fair values of interest rate agreements are determined by netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates and the underlying notional amount. The Alliance also incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty's nonperformance or credit risk in the fair value measurements. The CVA on the Alliance's interest rate swap agreements at June 30, 2012 and 2011 resulted in a decrease in the fair value of the related liability of $5,726 and $7,940, respectively.

(Dollars in Thousands)

NOTE Q--FAIR VALUE MEASUREMENT - Continued

A certain portion of the inputs used to value its interest rate swap agreements, including the forward interest rate curves and market perceptions of the Alliance's credit risk used in the CVAs, are unobservable inputs available to a market participant. As a result, the Alliance has determined that the interest rate swap valuations are classified in Level 3 of the fair value hierarchy.

The following tables provide a summary of changes in the fair value of the Alliance's Level 3 financial assets and liabilities during the fiscal years ended June 30, 2012 and 2011:

	Trading Securities	*Derivatives, Net*
July 1, 2010	$ 28,608	$ (134,300)
Total unrealized/realized gains in the Performance Indicator, net	2,847	23,049
Net investment income	1,263	519
June 30, 2011	32,718	(110,732)
Total unrealized/realized gains in the Performance Indicator, net	1,466	(6,198)
Net investment income	1,221	515
Purchases	5,107	-
Settlements	-	97,034
Distributions	(5,632)	-
June 30, 2012	$ 34,880	$ (19,381)

There were no changes in valuation techniques in 2012 or 2011. During 2011, as part of the transitional test of goodwill impairment, the Alliance recognized goodwill impairment of $2,965 based primarily on the fair value of the reporting unit, utilizing the income approach. Remaining goodwill determined not to be impaired, for this specific reporting unit, is included in the Consolidated Balance Sheets at $2,900.

NOTE R--OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

The Alliance does not present expense information by functional classification because its resources and activities are primarily related to providing healthcare services. Further, since the Alliance receives substantially all of its resources from providing healthcare services in a manner similar to business enterprise, other indicators contained in these consolidated financial statements are considered important in evaluating how well management has discharged their stewardship responsibilities.

NOTE S--SUBSEQUENT EVENTS

In September 2012, the Alliance issued $55,000 (Series 2012A) fixed rate and $28,095 (Series 2012B) variable rate tax-exempt Hospital Revenue Bonds through The Health and Educational Facilities Board of the City of Johnson City, Tennessee, and $9,785 (Series 2012C) variable rate tax-exempt Hospital Revenue Bonds through the Industrial Development Authority of Wise, Virginia (collectively, the Series 2012 Bonds). The proceeds from the Series 2012A Bonds will be used to finance a surgery center project at JCMC and pay issuance costs related to these Bonds. The proceeds from the Series 2012B and 2012C Bonds will be used to finance or refinance capital improvements and equipment acquisitions and to pay issuance costs associated with these Bonds. The timely payment of the Series 2012B and Series 2012C Bonds is secured by irrevocable transferable direct-pay letters of credit.

In July 2012, the Trustee of the previously derecognized 1998C Bonds liquidated certain investments held in the related irrevocable trust account and redeemed a portion of the 1998C Bonds with the proceeds from the liquidation. The fair value of the liquidated assets exceeded the payment necessary to redeem the 1998C Bonds and the excess was paid to the Alliance. As a result of this transaction, the Alliance recognized a gain of $13,847, net of fees.

Subsequent to June 30, 2012, JMH exercised their purchase option related to a medical office building previously held under a capital lease. The purchase price was $17,529 which was financed through a taxable private placement bond issuance.

Supplemental Schedules

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet (Dollars in Thousands)

June 30, 2012

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Other Entities	Mountain States Properties	Eliminations	Total
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 1,482	$ 36,881	$ -	$ 38,363	$ 22,006	$ 4,738	$ -	$ 65,107
Current portion of investments	-	22,745	-	22,745	3	13,809	-	36,557
Patient accounts receivable, less estimated allowances for uncollectible accounts	5,051	116,629	-	121,680	29,010	-	-	150,690
Other receivables, net	1,624	18,852	-	20,476	3,120	412	(1,000)	23,008
Inventories and prepaid expenses	832	20,951	-	21,783	6,924	103	-	28,810
TOTAL CURRENT ASSETS	8,989	216,058	-	225,047	61,063	19,062	(1,000)	304,172
INVESTMENTS, less amounts required to meet current obligations	19,348	395,778	-	415,126	100,811	44,760	-	560,697
EQUITY IN AFFILIATES	143,050	318,231	(157,099)	304,182	-	-	(304,182)	-
PROPERTY, PLANT AND EQUIPMENT, net	13,559	598,415	-	611,974	199,990	53,492	-	865,456
OTHER ASSETS								
Goodwill	9,007	143,276	-	152,283	2,108	-	-	154,391
Net deferred financing, acquisition costs and other charges	302	26,776	-	27,078	602	507	-	28,187
Other assets	8,887	12,145	-	21,032	4,550	2,562	-	28,144
TOTAL OTHER ASSETS	18,196	182,197	-	200,393	7,260	3,069	-	210,722
	$ 203,142	$ 1,710,679	$ (157,099)	$ 1,756,722	$ 369,124	$ 120,383	$ (305,182)	$ 1,941,047

* Management Services Organization only

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet - Continued
(Dollars in Thousands)

June 30, 2012

	*Blue Ridge Medical Management **	*Other Obligated Group Members*	*Eliminations*	*Total Obligated Group*	*Other Entities*	*Mountain States Properties*	*Eliminations*	*Total*
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Accrued interest payable	$ 46	$ 18,455	$ -	$ 18,501	$ 24	$ -	$ -	$ 18,525
Current portion of long-term debt and capital lease obligations	-	29,824	-	29,824	2,653	-	-	32,477
Current portion of estimated fair value of derivatives	-	-	-	-	-	10,395	-	10,395
Accounts payable and accrued expenses	4,191	94,352	-	98,543	9,297	1,030	-	108,870
Accrued salaries, compensated absences and amounts withheld	3,704	40,121	-	43,825	11,764	-	-	55,589
Payables to (receivables from) affiliates, net	15,321	3,118	-	18,439	8,365	(26,804)	-	-
Estimated amounts due to third-party payors, net	-	16,607	-	16,607	1,453	-	-	18,060
TOTAL CURRENT LIABILITIES	23,262	202,477	-	225,739	33,556	(15,379)	-	243,916
OTHER LIABILITIES								
Long-term debt and capital lease obligations, less current portion	13,676	994,014	-	1,007,690	41,408	-	(1,000)	1,048,098
Estimated fair value of derivatives, less current portion	-	8,534	-	8,534	133	319	-	8,986
Deferred revenue	-	2,929	-	2,929	205	-	-	3,134
Estimated professional liability self-insurance	2,268	5,975	-	8,243	1,101	-	-	9,344
Other long-term liabilities	6,837	9,839	-	16,676	146	-	-	16,822
TOTAL LIABILITIES	46,043	1,223,768	-	1,269,811	76,549	(15,060)	(1,000)	1,330,300
NET ASSETS								
Unrestricted net assets								
Mountain States Health Alliance	157,099	436,388	(157,099)	436,388	164,117	135,443	(299,560)	436,388
Noncontrolling interests in subsidiaries	-	39,123	-	39,123	117,377	-	6,459	162,959
TOTAL UNRESTRICTED NET ASSETS	157,099	475,511	(157,099)	475,511	281,494	135,443	(293,101)	599,347
Temporarily restricted net assets								
Mountain States Health Alliance	-	11,223	-	11,223	10,955	-	(10,955)	11,223
Noncontrolling interests in subsidiaries	-	50	-	50	(1)	-	1	50
TOTAL TEMPORARILY RESTRICTED NET ASSETS	-	11,273	-	11,273	10,954	-	(10,954)	11,273
Permanently restricted net assets	-	127	-	127	127		(127)	127
TOTAL NET ASSETS	157,099	486,911	(157,099)	486,911	292,575	135,443	(304,182)	610,747
	$ 203,142	$ 1,710,679	$ (157,099)	$ 1,756,722	$ 369,124	$ 120,383	$ (305,182)	$ 1,941,047

*Management Services Organization only.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Operations
(Dollars in Thousands)

Year Ended June 30, 2012

	*Blue Ridge Medical Management **	*Other Obligated Group Members*	*Eliminations*	*Total Obligated Group*	*Other Entities*	*Mountain States Properties*	*Eliminations*	*Total*
Revenue, gains and support:								
Patient service revenue, net of contractual allowances and discounts	$ 50,213	$ 824,899	$ (2,165)	$ 872,947	$ 202,108	$ -	$ (5)	$ 1,075,050
Provision for bad debts	(4,397)	(95,440)	-	(99,837)	(23,080)	-	-	(122,917)
Net patient service revenue	45,816	729,459	(2,165)	773,110	179,028	-	(5)	952,133
Other operating revenue	39,451	15,163	(29,595)	25,019	67,543	8,398	(61,553)	39,407
Equity in net gain (loss) of affiliates	3,332	(17,848)	(1,488)	(16,004)	-	-	16,004	-
TOTAL REVENUE, GAINS AND SUPPORT	88,599	726,774	(33,248)	782,125	246,571	8,398	(45,554)	991,540
Expenses:								
Salaries and wages	21,613	268,799	-	290,412	72,358	451	(4,614)	358,607
Physician salaries and wages	43,468	1,162	-	44,630	62,704	-	(41,628)	65,706
Contract labor	777	3,864	-	4,641	2,382	9	(657)	6,375
Employee benefits	7,416	51,007	(2,236)	56,187	17,510	85	(4,182)	69,600
Fees	4,025	100,938	(29,034)	75,929	25,946	517	(4,433)	97,959
Supplies	2,454	135,733	-	138,187	32,124	40	(165)	170,186
Utilities	626	12,222	-	12,848	3,476	965	-	17,289
Other	7,538	47,568	(490)	54,616	23,471	4,077	(5,879)	76,285
Depreciation	1,395	49,959	-	51,354	19,458	2,248	-	73,060
Amortization	30	2,161	-	2,191	54	-	-	2,245
Interest and taxes	(1,169)	42,976	-	41,807	3,018	1,112	(34)	45,903
TOTAL EXPENSES	88,173	716,389	(31,760)	772,802	262,501	9,504	(61,592)	983,215
OPERATING INCOME (LOSS)	426	10,385	(1,488)	9,323	(15,930)	(1,106)	16,038	8,325
Nonoperating gains (losses):								
Interest and dividend income	673	10,841	-	11,514	2,401	1,332	(34)	15,213
Net realized gains (losses) on the sale of securities	21	611	-	632	(3,227)	-	-	(2,595)
Change in net unrealized gains on securities	(455)	(3,758)	-	(4,213)	133	1,196	-	(2,884)
Derivative related income	-	6,051	-	6,051	-	1,464	-	7,515
Loss on early extinguishment of debt	-	(2,553)	-	(2,553)	(83)	-	-	(2,636)
Change in estimated fair value of derivatives	-	(6,086)	-	(6,086)	(133)	21	-	(6,198)
Other nonoperating gains (losses)	823	12,485	-	13,308	(1,977)	(95)	-	11,236
NET NONOPERATING GAINS	1,062	17,591	-	18,653	(2,886)	3,918	(34)	19,651
EXCESS (DEFICIT) OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ 1,488	$ 27,976	$ (1,488)	$ 27,976	$ (18,816)	$ 2,812	$ 16,004	$ 27,976

*Management Services Organization only.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Changes in Net Assets (Dollars in Thousands)

Year Ended June 30, 2012

	Blue Ridge Medical Management *	Other Obligated Group Members		Eliminations	Total Obligated Group	Other Entities		Total Other Entities	Mountain States Properties	Eliminations	Total
		Mountain States Health Alliance	Noncontrolling Interests			Mountain States Health Alliance	Noncontrolling Interests				
UNRESTRICTED NET ASSETS:											
Excess (deficit) of revenue, gains and support over expenses and losses	$ 1,488	$ 31,702	$ (3,726)	$ (1,488)	$ 27,976	$ (12,729)	$ (6,087)	$ (18,816)	$ 2,812	$ 16,004	$ 27,976
Pension and other defined benefit plan adjustments	-	(1,119)	(1,115)	-	(2,234)	(9)	(9)	(18)	-	18	(2,234)
Net assets released from restrictions used for the purchase of property, plant and equipment	-	1,550	-	-	1,550	1,550	-	1,550	-	(1,550)	1,550
Distributions to noncontrolling interests	-	-	(324)	-	(324)	-	(324)	(324)	-	324	(324)
Repurchases of noncontrolling interests	-	3,860	(3,860)	-	-	-	-	-	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	1,488	35,993	(9,025)	(1,488)	26,968	(11,188)	(6,420)	(17,608)	2,812	14,796	26,968
TEMPORARILY RESTRICTED NET ASSETS:											
Restricted grants and contributions	-	3,860	39	-	3,899	3,036	12	3,048	-	(3,048)	3,899
Net assets released from restrictions	-	(3,352)	(46)	-	(3,398)	(3,255)	(22)	(3,277)	-	3,277	(3,398)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	-	508	(7)	-	501	(219)	(10)	(229)	-	229	501
INCREASE (DECREASE) IN TOTAL NET ASSETS	1,488	36,501	(9,032)	(1,488)	27,469	(11,407)	(6,430)	(17,837)	2,812	15,025	27,469
NET ASSETS, BEGINNING OF YEAR	155,611	411,237	-	(155,611)	411,237	239,164	172,041	411,205	132,631	(371,795)	583,278
ADDITION OF OBLIGATED MEMBERS	-	-	54,025	-	54,025	(52,559)	(54,054)	(106,613)	-	52,588	-
NET ASSET TRANSFER	-	-	(5,820)	-	(5,820)	-	5,820	5,820	-	-	-
NET ASSETS, END OF YEAR	$ 157,099	$ 447,738	$ 39,173	$ (157,099)	$ 486,911	$ 175,198	$ 117,377	$ 292,575	$ 135,443	$ (304,182)	$ 610,747

*Management Services Organization only.

NOTE A--OBLIGATED GROUP MEMBERS

As described in Note F to the consolidated financial statements, the Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding bonds. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. In accordance with Article Six, Section 6.6 of the Amended and Restated Master Trust Indenture between Mountain States Health Alliance and the Bank of New York Mellon Trust Company, NA as Master Trustee, those members pledged in 2011 include Johnson City Medical Center Hospital, Indian Path Medical Center, Franklin Woods Community Hospital, Sycamore Shoals Hospital, Johnson County Community Hospital, Russell County Medical Center and Blue Ridge Medical Management Corporation (parent company only), collectively defined as the Obligated Group (Obligated Group). In 2012, NCH and SCCH (hospitals only) were admitted into the Obligated Group. These entities' operations since admission (including noncontrolling interests) are included as part of the Obligated Group results for 2012 in the accompanying consolidated statements of operations and changes in net assets.

The supplemental consolidating schedules include the accounts of the members of the Obligated Group after elimination of all significant intergroup accounts and transactions. Certain other subsidiaries of the Alliance, Mountain States Properties, Inc. (MSP) and all other affiliates (Other Entities), are not pledged to secure the payment of the outstanding bonds as they are not part of the Obligated Group. These affiliates have been accounted for within the Obligated Group based upon the Alliance's original and subsequent investments, as adjusted for the Alliance's pro rata share of income or losses and any distributions, and are included as a part of equity in affiliates in the supplemental consolidating balance sheet.

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements
(and Supplemental Schedules)

Years Ended June 30, 2013 and 2012

PYA

Certified Public Accountants

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Schedules)

Years Ended June 30, 2013 and 2012

PYA
Certified Public Accountants

PERSHING YOAKLEY & ASSOCIATES, P.C.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mountain States Health Alliance:

We have audited the accompanying consolidated financial statements of Mountain States Health Alliance and its subsidiaries (the Alliance), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Alliance's preparation and fair presentation of the consolidated 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 Alliance'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain States Health Alliance and its subsidiaries as of June 30, 2013 and 2012, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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

Pershing Yoakley & Associates PC

Knoxville, Tennessee
October 24, 2013

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets
(Dollars in Thousands)

		June 30, 2013		June 30, 2012
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	**74,902**	$	65,107
Current portion of investments - Note C		**20,386**		36,557
Patient accounts receivable, less estimated allowances for uncollectible accounts of $49,449 in 2013 and $52,696 in 2012		**164,187**		147,466
Other receivables, net		**33,468**		30,190
Inventories and prepaid expenses		**31,073**		28,810
TOTAL CURRENT ASSETS		**324,016**		308,130
INVESTMENTS, less amounts required to meet current obligations		**601,352**		560,697
PROPERTY, PLANT AND EQUIPMENT, net		**884,293**		853,625
OTHER ASSETS				
Goodwill		**154,391**		154,391
Net deferred financing, acquisition costs and other charges		**28,480**		28,187
Other assets		**46,544**		39,975
TOTAL OTHER ASSETS		**229,415**		222,553
	$	**2,039,076**	$	1,945,005

		June 30,		
		2013		***2012***
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accrued interest payable	$	**19,706**	$	18,525
Current portion of long-term debt and capital lease obligations		**34,417**		32,477
Current portion of estimated fair value of derivatives - Note D		**-**		10,395
Accounts payable and accrued expenses		**94,302**		108,870
Accrued salaries, compensated absences and amounts withheld		**63,665**		55,589
Estimated amounts due to third-party payors, net		**26,775**		22,018
TOTAL CURRENT LIABILITIES		**238,865**		247,874
OTHER LIABILITIES				
Long-term debt and capital lease obligations, less current portion		**1,090,348**		1,048,098
Estimated fair value of derivatives, less current portion		**8,185**		8,986
Deferred revenue		**2,216**		3,134
Estimated professional liability self-insurance		**8,758**		9,344
Other long-term liabilities		**17,721**		16,822
TOTAL LIABILITIES		**1,366,093**		1,334,258
COMMITMENTS AND CONTINGENCIES - Notes D, F, G, and N				
NET ASSETS				
Unrestricted net assets				
Mountain States Health Alliance		**490,414**		436,388
Noncontrolling interests in subsidiaries		**169,614**		162,959
TOTAL UNRESTRICTED NET ASSETS		**660,028**		599,347
Temporarily restricted net assets				
Mountain States Health Alliance		**12,776**		11,223
Noncontrolling interests in subsidiaries		**52**		50
TOTAL TEMPORARILY RESTRICTED NET ASSETS		**12,828**		11,273
Permanently restricted net assets		**127**		127
TOTAL NET ASSETS		**672,983**		610,747
	$	**2,039,076**	$	1,945,005

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations
(Dollars in Thousands)

	Year Ended June 30, 2013	Year Ended June 30, 2012
Revenue, gains and support:		
Patient service revenue, net of contractual allowances and discounts	$ **1,045,245**	$ 1,075,050
Provision for bad debts	**(112,497)**	(122,917)
Net patient service revenue	**932,748**	952,133
Premium revenue	**1,003**	-
Net investment gain	**40,980**	9,734
Net derivative gain	**7,118**	1,317
Other revenue, gains and support	**77,455**	50,643
TOTAL REVENUE, GAINS AND SUPPORT	**1,059,304**	1,013,827
Expenses:		
Salaries and wages	**355,590**	358,607
Physician salaries and wages	**74,258**	65,706
Contract labor	**3,942**	6,375
Employee benefits	**74,590**	69,600
Fees	**105,891**	97,959
Supplies	**162,955**	170,186
Utilities	**16,857**	17,289
Medical costs	**1,039**	-
Other	**80,211**	76,285
Loss on early extinguishment of debt - Note F	**-**	2,636
Depreciation	**78,941**	73,060
Amortization	**2,260**	2,245
Interest and taxes	**43,203**	45,903
TOTAL EXPENSES	**999,737**	985,851
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ **59,567**	$ 27,976

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets
(Dollars in Thousands)

Year Ended June 30, 2013

	Mountain States Health Alliance	Noncontrolling Interests	Total
UNRESTRICTED NET ASSETS:			
Excess of Revenue, Gains and Support over Expenses and Losses	$ 52,692	$ 6,875	$ 59,567
Pension and other defined benefit plan adjustments	(172)	(171)	(343)
Net assets released from restrictions used for the purchase of property, plant and equipment	1,506	-	1,506
Distributions to noncontrolling interests	-	(49)	(49)
INCREASE IN UNRESTRICTED NET ASSETS	54,026	6,655	60,681
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	4,969	21	4,990
Net assets released from restrictions	(3,416)	(19)	(3,435)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	1,553	2	1,555
INCREASE IN TOTAL NET ASSETS	55,579	6,657	62,236
NET ASSETS, BEGINNING OF YEAR	447,738	163,009	610,747
NET ASSETS, END OF YEAR	$ 503,317	$ 169,666	$ 672,983

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets - Continued
(Dollars in Thousands)

Year Ended June 30, 2012

	Mountain States Health Alliance	*Noncontrolling Interests*	*Total*
UNRESTRICTED NET ASSETS:			
Excess (Deficit) of Revenue, Gains and Support over Expenses and Losses	$ 31,702	$ (3,726)	$ 27,976
Pension and other defined benefit plan adjustments	(1,119)	(1,115)	(2,234)
Net assets released from restrictions used for the purchase of property, plant and equipment	1,550	-	1,550
Distributions to noncontrolling interests	-	(324)	(324)
Repurchases of noncontrolling interests	3,860	(3,860)	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	35,993	(9,025)	26,968
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	3,860	39	3,899
Net assets released from restrictions	(3,352)	(46)	(3,398)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	508	(7)	501
INCREASE (DECREASE) IN TOTAL NET ASSETS	36,501	(9,032)	27,469
NET ASSETS, BEGINNING OF YEAR	411,237	172,041	583,278
NET ASSETS, END OF YEAR	$ 447,738	$ 163,009	$ 610,747

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 62,236	$ 27,469
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for depreciation and amortization	81,786	75,777
Provision for bad debts	112,497	122,917
Loss on early extinguishment of debt	-	2,636
Change in estimated fair value of derivatives	(457)	6,198
Equity in net income of joint ventures, net	(636)	(979)
Loss (gain) on disposal of assets	(1)	446
Amounts received on interest rate swap settlements	(6,661)	(7,515)
Gain on escrow restructuring - Note F	(13,847)	(5,337)
Gain on swap settlement - Note D	(3,020)	-
Income recognized through forward sale agreements	-	(864)
Gain on termination of swaption and forward sale agreements - Note D	-	(7,766)
Capital Appreciation Bond accretion and other	3,910	3,159
Restricted contributions	(4,990)	(3,899)
Pension and other defined benefit plan adjustments	343	2,234
Increase (decrease) in cash due to change in:		
Patient accounts receivable	(129,218)	(138,996)
Other receivables, net	(3,192)	(3,501)
Inventories and prepaid expenses	(2,263)	155
Trading securities	(17,845)	107,593
Other assets	(1,073)	(2,733)
Accrued interest payable	1,181	(1,522)
Accounts payable and accrued expenses	(20,263)	4,131
Accrued salaries, compensated absences and amounts withheld	8,076	(2,211)
Estimated amounts due to third-party payers, net	4,757	3,247
Other long-term liabilities	556	236
Estimated professional liability self-insurance	(586)	(348)
Total adjustments	9,054	153,058
NET CASH PROVIDED BY OPERATING ACTIVITIES	71,290	180,527
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(105,751)	(132,890)
Purchases of land held for expansion	(5,769)	-
Additions to goodwill	-	(5,725)
Purchases of held-to-maturity securities	(8,722)	(9,516)
Net distribution from joint ventures and unconsolidated affiliates	732	882
Proceeds from sale of property, plant and equipment	335	1,881
NET CASH USED IN INVESTING ACTIVITIES	(119,175)	(145,368)

	Year Ended June 30, 2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital lease obligations, including deposits to escrow	(75,066)	(71,997)
Payment of acquisition and financing costs	(2,314)	(2,742)
Proceeds from issuance of long-term debt and other financing arrangements	117,085	67,451
Payment on termination of derivative agreements - Note D	(7,375)	(93,353)
Gain on escrow restructuring - Note F	13,847	5,337
Net amounts received on interest rate swap settlements	6,661	7,515
Restricted contributions received	4,842	4,969
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	57,680	(82,820)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,795	(47,661)
CASH AND CASH EQUIVALENTS, beginning of year	65,107	112,768
CASH AND CASH EQUIVALENTS, end of year	$ 74,902	$ 65,107

SUPPLEMENTAL INFORMATION AND NON-CASH TRANSACTIONS:		
Cash paid for interest	$ 37,023	$ 41,168
Cash paid for federal and state income taxes	$ 616	$ 336
Construction related payables in accounts payable and accrued expenses	$ 11,598	$ 6,821
Property acquired through capital lease arrangement	$ -	$ 13,959
Payable on termination of forward sale agreements in accounts payable and accrued expenses	$ -	$ 13,429
Land held for expansion placed in use	$ -	$ 1,610

During the year ended June 30, 2012, the Alliance refinanced previously issued debt of $174,547.

NOTE A--ORGANIZATION AND OPERATIONS

Mountain States Health Alliance (the Alliance) is a tax-exempt entity with operations primarily located in Washington, Sullivan, and Carter counties of Tennessee and Smyth, Wise, Dickenson, Russell and Washington counties of Virginia. The initial funds for the establishment of the Alliance in 1945 were provided by individuals and various institutions.

The primary operations of the Alliance consist of ten acute and specialty care hospitals, as follows:

- Johnson City Medical Center (JCMC) - licensed for 658 beds
- Indian Path Medical Center (IPMC) - licensed for 261 beds
- Smyth County Community Hospital (SCCH) - licensed for 153 beds
- Norton Community Hospital (NCH) - licensed for 129 beds
- Sycamore Shoals Hospital (SSH) - licensed for 121 beds
- Johnston Memorial Hospital (JMH) - licensed for 116 beds
- Franklin Woods Community Hospital (FWCH) - licensed for 80 beds
- Russell County Medical Center (RCMC) - licensed for 78 beds
- Dickenson Community Hospital (DCH) - licensed for 25 beds
- Johnson County Community Hospital (JCCH) - licensed for 2 beds

The Alliance has a 50.1% interest in JMH. JMH is also the sole member of Abingdon Physician Partners (APP), a non-taxable corporation that owns and manages physician practices.

The Alliance has a 50.1% interest in NCH. NCH is also the sole member or shareholder of DCH and Norton Community Physician Services, LLC (NCPS), a taxable corporation that consists of physician practices and a pharmacy and Community Home Care (CHC), a taxable corporation that provides home medical equipment.

The Alliance has an 80% interest in SCCH. SCCH is the sole shareholder of Southwest Community Health Services, Inc. (SWCH), a taxable entity that operates a pharmacy and provides other health services.

The activities and accounts of JMH, NCH and SCCH are included in the accompanying consolidated financial statements.

The Alliance is the sole shareholder of Blue Ridge Medical Management Corporation (BRMM), a for-profit entity that owns and manages physician practices and provides other healthcare services to patients in Tennessee and Virginia. BRMM also operates as a medical office real estate developer by owning, selling and leasing real estate to physician practices and other entities. BRMM is either the sole shareholder, a significant shareholder, or member of the following consolidated organizations:

NOTE A--ORGANIZATION AND OPERATIONS - Continued

Mountain States Physician Group, Inc. (MSPG): A company that contracts with physicians to provide services to BRMM physician practices.

Mountain States Properties, Inc. (MSPI): An entity that owns and manages certain real estate (primarily medical office buildings) and provides rehabilitation and fitness services.

Mediserve Medical Equipment of Kingsport, Inc. (Mediserve): A company that provides durable medical equipment services.

Kingsport Ambulatory Surgery Center (KASC) (d.b.a. Kingsport Day Surgery): A joint venture operating as an outpatient surgery center which performs procedures primarily in otolaryngology, orthopedics, ophthalmology, and general surgery. BRMM has a 43% ownership of KASC and maintains control over KASC through a management agreement. The accounts and activities of KASC are included in the accompanying consolidated financial statements.

Piney Flats Urgent Care (PFUC): A for-profit entity that provides urgent care patient services. BRMM has a 75% ownership of PFUC. The accounts and activities of PFUC are included in the accompanying consolidated financial statements.

Wilson Pharmacy, Inc. (Wilson): In August 2012, BRMM acquired Wilson, a company that owns and operates retail pharmacies. BRMM purchased 100% of the total issued and outstanding capital stock of Wilson for $8,114 and recognized goodwill of $5,725.

The Alliance is the primary beneficiary of the activities of Mountain States Foundation, Inc. (MSF), a not-for-profit foundation formed to coordinate fundraising and development activities of the Alliance. The Alliance is also the beneficiary of the Mountain States Health Alliance Auxiliary (Auxiliary), a not-for-profit organization formed to coordinate volunteer activities of the Alliance. The activities and accounts of MSF and the Auxiliary are included in the accompanying consolidated financial statements.

The Alliance is a 99.6% shareholder of Integrated Solutions Health Network, LLC (ISHN). The primary function of ISHN is to establish, operate and administer a provider-sponsored health care delivery network. ISHN is the sole shareholder of the following subsidiaries:

CrestPoint Health Insurance Company (CHIC): A for-profit insurance company licensed in the State of Tennessee which provides network access and administration and third-party Medicare administrator services. During 2013, CHIC entered into a risk-based contract with the Center for Medicare & Medicaid Services (CMS) to provide or arrange for the provision of healthcare

NOTE A--ORGANIZATION AND OPERATIONS - Continued

services to senior citizens who have Medicare Part A, Medicare Part B and Medicare Part D entitlements.

AnewCare Collaborative (AnewCare): A for-profit accountable care organization which began participating in the CMS's Medicare Shared Savings Program (MSSP) in July 2012.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Alliance and its subsidiaries after elimination of all significant intercompany accounts and transactions.

Noncontrolling Interests in Subsidiaries: The Alliance's accompanying consolidated financial statements include all assets, liabilities, revenues, expenses, and changes in net assets, including amounts attributable to the noncontrolling interests. Noncontrolling interests represent the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to the Alliance. For the years ending June 30, 2013 and 2012, the Alliance attributed an Excess (Deficit) of Revenue, Gains and Support over Expenses and Losses of $6,875 and ($3,726), respectively, to the noncontrolling interests in JMH, NCH, SCCH, KASC, PFUC and ISHN based on the noncontrolling interests' respective ownership percentage.

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents: Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents designated as assets limited as to use or uninvested amounts included in investment portfolios are not included as cash and cash equivalents on the Consolidated Balance Sheets.

Investments: Investments as reported in the Consolidated Balance Sheets include trading securities and held-to-maturity securities (Note C). The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-320, *Investments – Debt and Equity Securities*, allows not-for-profit organizations to report in a manner similar to business entities by identifying securities as available-for-sale or held-to-maturity and to exclude the unrealized gains and losses on

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

those securities from the Performance Indicator (as defined below). Investments which the Alliance has the positive intent and ability to hold to maturity are considered as held-to-maturity. Substantially all other investments are considered as trading securities.

On June 30, 2013, the Alliance determined that it no longer intended to hold certain of its held-to-maturity investment portfolios to maturity and reclassified investments with an amortized cost of $161,929 into the trading designation. As a result, the Alliance recognized net unrealized gains of approximately $8,255 in the accompanying 2013 Consolidated Statement of Operations. The investments that remain designated as held-to-maturity are limited as to use under a safekeeping agreement or are otherwise unavailable for disposition.

Management annually evaluates investments designated as held-to-maturity and recognizes any "other-than-temporary" losses as deductions from the Performance Indicator (as defined below). Management's evaluation considers the amount of decline in fair value, as well as the time period of any such decline. Management does not believe any investment classified as held-to-maturity is other-than-temporarily impaired at June 30, 2013.

Within the trading securities portfolio, all debt securities and marketable equity securities with readily determinable fair values are reported at fair value based on quoted market prices. Investments without readily determinable fair values are reported at estimated fair market value pursuant to FASB ASC 825, *Financial Instruments*.

Realized gains and losses are computed using the specific identification method for cost determination. Interest and dividend income is reported net of related investment fees.

Investments in joint ventures are generally reported under the equity method of accounting, which approximates the Alliance's equity in the underlying net book value, unless the ownership structure requires consolidation. Other assets include investments in joint ventures of $2,057 and $2,153 at June 30, 2013 and 2012, respectively. Subsequent to June 30, 2013, the Alliance liquidated a portion of its investment in one joint venture (Note S).

Inventories: Inventories, consisting primarily of medical supplies, are stated at the lower of cost or market.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost, or if donated, at the fair value at the date of gift. Generally, depreciation is computed by the straight-line method over the estimated useful life of the asset. Equipment held under capital lease obligations is

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

amortized under the straight-line method over the shorter of the lease term or estimated useful life. Amortization of buildings and equipment held under capital leases is shown as a part of depreciation expense and accumulated depreciation in the accompanying consolidated financial statements. Renewals and betterments are capitalized and depreciated over their useful life, whereas costs of maintenance and repairs are expensed as incurred.

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The amount capitalized is net of investment earnings on assets limited as to use derived from borrowings designated for capital assets.

The Alliance reviews capital assets for indications of potential impairment when there are changes in circumstances related to a specific asset. If this review indicates that the carrying value of these assets may not be recoverable, the Alliance estimates future cash flows from operations and the eventual disposition of such assets. If the sum of these undiscounted future cash flows is less than the carrying amount of the asset, a write-down to estimated fair value is recorded. The Alliance did not recognize any impairment losses during 2013 and 2012.

Other assets include property held for resale and property held for expansion of \$20,220 and \$14,451, respectively, at June 30, 2013 and 2012. Property held for resale and property held for expansion primarily represent land contributed to, or purchased by, the Alliance plus costs incurred to develop the infrastructure of such land. Management annually evaluates its investment and records non-temporary declines in value when it is determined the ultimate net realizable value is less than the recorded amount. No such declines were identified in 2013 and 2012.

Goodwill: Goodwill represents the difference between the acquisition cost of assets and the estimated fair value of net tangible and any separately identified intangible assets. In accordance with ASC 350, *Intangibles – Goodwill and Other,* goodwill is evaluated for impairment at least annually. The reporting unit for evaluation of the majority of the Alliance's goodwill is the aggregate acute-care operations. Management performed an evaluation of goodwill for impairment considering qualitative and quantitative factors and does not believe it is more likely than not that goodwill associated with any of its reporting units is impaired as of June 30, 2013.

Deferred Financing, Acquisition Costs and Other Charges: Other assets, including deferred financing, acquisition costs and other charges, total \$28,480 and \$28,187 at June 30, 2013 and 2012, respectively. Deferred financing costs are amortized over the life of the respective bond issue principally using the average bonds outstanding method. Other intangible assets include licenses and similar assets and are being amortized over the intangible's estimated useful life under the straight-line method.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Prior to 2009, the Alliance routinely financed interest rate swap and other derivative transaction issuance costs through modification of future settlement terms. As such, the unamortized issuance costs of these derivatives are included as deferred financing costs in the accompanying Consolidated Balance Sheets and are being amortized over the term of the respective derivative instrument. The unpaid issuance costs are included as a part of the estimated fair value of derivatives in the accompanying Consolidated Balance Sheets. Subsequent to 2009, interest rate swap and derivative transaction issuance costs were expensed as incurred.

Derivative Financial Instruments: As further described in Note D, the Alliance is a party to various interest rate swaps. These financial instruments are not designated as hedges and have been presented at estimated fair market value in the accompanying Consolidated Balance Sheets as either current or long-term liabilities, based upon the remaining term of the instrument. Changes in the estimated fair value of these derivatives are included in the Consolidated Statements of Operations as part of net derivative gain.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Self-insurance liabilities include estimated reserves for reported and unreported professional liability claims (Note G) and are recorded at the estimated net present value of such claims. Other long-term liabilities include contributions payable and obligations under deferred compensation arrangements, a defined benefit pension plan, a post-retirement employee benefit plan as well as other liabilities which management estimates are not payable within one year.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Alliance's revenue recognition policies related to self-pay and other types of payers emphasize revenue recognition only when collections are reasonably assured.

Patient accounts receivable are reported net of both an estimated allowance for uncollectible accounts and an estimated allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid, TennCare and other third-party payment programs. Current operations include a provision for bad debts in the Consolidated Statements of Operations estimated based upon the age of the patient accounts receivable, historical writeoffs and recoveries and any unusual circumstances (such as local, regional or national economic conditions) which affect the collectibility of receivables, including management's assumptions about conditions it expects to exist and courses of action it expects to take. Additions to the allowance for uncollectible accounts result from the

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

provision for bad debts. Patient accounts written off as uncollectible are deducted from the allowance for uncollectible accounts.

For uninsured patients that do not qualify for charity care, the Alliance recognizes revenue on the basis of discounted rates under the Alliance's self-pay patient policy. Under the policy, a patient who has no insurance and is ineligible for any government assistance program has his or her bill reduced to the amount which generally would be billed to a commercially insured patient.

The Alliance's policy does not require collateral or other security for patient accounts receivable. The Alliance routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Charity Care: The Alliance accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Alliance and various guidelines outlined by the Federal Government. These policies define charity as those services for which no payment is anticipated and, as such, charges at established rates are not included in net patient service revenue. The estimated direct and indirect cost of providing these services totaled approximately $24,354 and $24,709 in 2013 and 2012, respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated.

In addition to the charity care services described above, the Alliance provides a number of other services to benefit the poor for which little or no payment is received. Medicare, Medicaid, TennCare and State indigent programs do not cover the full cost of providing care to beneficiaries of those programs. The Alliance also provides services to the community at large for which it receives little or no payment.

Excess (Deficit) of Revenue, Gains and Support Over Expenses and Losses: The Consolidated Statements of Operations and the Consolidated Statements of Changes in Net Assets includes the caption Excess (Deficit) of Revenue, Gains and Support Over Expenses and Losses (the Performance Indicator). Changes in unrestricted net assets which are excluded from the Performance Indicator, consistent with industry practice, include contributions of long-lived assets or amounts restricted to the purchase of long-lived assets, certain pension and related adjustments, and transactions with noncontrolling interests.

Income Taxes: The Alliance is classified as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been made in the accompanying consolidated financial statements for the Alliance and its tax-exempt subsidiaries. Taxable entities account for income taxes in accordance with FASB ASC 740, *Income*

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Taxes (Note L). The Alliance has no significant uncertain tax positions at June 30, 2013 and 2012. At June 30, 2013, tax returns for 2009 through 2013 are subject to examination by the Internal Revenue Service.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor or time restriction expires; that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Consolidated Statements of Operations and Changes in Net Assets as net assets released from restrictions. The Alliance's policy is to net contribution and grant revenues against related expenses and present such amounts as a part of other revenue, gains and support in the Consolidated Statements of Operations. Permanently restricted net assets have been restricted by donors to be maintained by the Alliance in perpetuity.

Premium Revenue: Premiums earned include premiums from individuals and Medicare. Medicare revenue includes premiums based on predetermined prepaid rates under Medicare risk contracts. Premiums are recognized in the month in which the members are entitled to health care services. Premiums collected in advance are deferred and recorded as unearned premium revenue. Premium deficiency losses are recognized when it is probable that expected future claim expenses will exceed future premiums on existing contracts. CHIC evaluated the need for a premium deficiency reserve and recorded an estimated reserve of $1,500 at June 30, 2013.

Medicare Shared Savings Program (MSSP): AnewCare, an Accountable Care Organization (ACO), participates in CMS's Medicare Shared Savings Program which is designed to facilitate coordination and cooperation among providers to improve the quality of care for Medicare beneficiaries and reduce unnecessary costs. ACOs participating in the program are assigned beneficiaries by CMS and are entitled to share in the savings if they are able to lower growth in Medicare Parts A and B fee-for-service costs while meeting performance standards on quality of care. The program is based on performance periods, the first of which specific to AnewCare is the period of July 2012 to December 2013. Utilizing statistical data and the methodology employed by CMS, AnewCare has estimated and recognized $2,644 of net shared savings through June 30, 2013. Variability is inherent in the estimation methodology and due to uncertainties in the estimation; it is probable that management's estimates of shared savings, if any, will change by the end of the performance period, and such change could be significant.

Electronic Health Record Incentives: The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

record (EHR) technology. The incentive payments are calculated based upon estimated discharges, charity care and other input data and are predicated upon the Alliance's attainment of program and attestation criteria and are subject to regulatory audit. During the years ending June 30, 2013 and 2012, the Alliance recognized EHR incentive revenues of $22,474 and $4,894, respectively, comprised of $17,340 of Medicare revenues in 2013 and $5,134 and $4,894 of Medicaid revenues in 2013 and 2012, respectively. EHR incentive revenues are included in other revenue, gains and support in the accompanying Consolidated Statements of Operations.

The Alliance incurs both capital expenditures and operating expenses in connection with the implementation of its various EHR initiatives. The amount and timing of these expenditures does not directly correlate with the timing of the Alliance's receipt or recognition of the EHR incentive payments.

Medical Costs: The cost of health care services is recognized in the period in which services are provided. Medical costs include an estimate of the cost of services provided to CHIC members by third-party providers, which have been incurred but not provided to CHIC. The estimate for incurred but not reported claims is based on actuarial projections of costs using historical paid claims and industry data. Due to uncertainties in the estimation, it is at least reasonably possible that management's estimates of incurred but not reported claims will change in 2014, although the amount of the change cannot be estimated.

Fair Value Measurement: The Alliance had previously adopted FASB ASC 820, *Fair Value Measurements and Disclosures,* which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements.

Subsequent Events: The Alliance evaluated all events or transactions that occurred after June 30, 2013, through October 24, 2013, the date the consolidated financial statements were available to be issued. During this period management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2013 consolidated financial statements, other than as discussed in Note S.

Reclassifications: Certain 2012 amounts have been reclassified to conform with the 2013 presentation in the accompanying consolidated financial statements. Prior to 2013, the Alliance classified only those activities directly associated with its mission of providing healthcare services, as well as other activities deemed significant to its operations, as operating activities. In 2013, the Alliance no longer presents an intermediate measure of operating income (loss) and the 2012 Consolidated Statement of Operations has been reformatted to be consistent with this presentation.

(Dollars in Thousands)

NOTE C--INVESTMENTS

Assets limited as to use are summarized by designation or restriction as follows at June 30:

	2013	*2012*
Designated or restricted:		
Under safekeeping agreements and other	$ 10,350	$ 24,026
By Board for capital improvements	-	4
Under bond indenture agreements:		
For debt service and interest payments	60,823	77,602
For capital acquisitions	36,989	29,578
	108,162	131,210
Less: amount required to meet current obligations	(20,386)	(36,557)
	$ 87,776	$ 94,653

Assets limited as to use consist of the following at June 30:

	2013	*2012*
Cash, cash equivalents and money market funds	$ 57,190	$ 80,304
U.S. Government securities	11,164	8,582
U.S. Agency securities	30,407	40,398
Corporate and foreign bonds	7,530	-
Municipal obligations	1,871	1,926
	$ 108,162	$ 131,210

Trading securities consist of the following at June 30:

	2013	*2012*
Cash, cash equivalents and money market funds	$ 9,488	$ 5,186
U.S. Government securities	18,481	10,697
U.S. Agency securities	19,620	26,165
Corporate and foreign bonds	172,350	52,581
Municipal obligations	17,749	961
Preferred and asset backed securities	3,491	11,183
U.S. equity securities	10,944	28,344
Mutual funds	186,028	141,968
Other	37,353	34,880
	$ 475,504	$ 311,965

(Dollars in Thousands)

NOTE C--INVESTMENTS - Continued

Held-to-maturity securities (other than assets limited as to use) are carried at amortized cost and consist of the following at June 30:

	2013	2012
Cash, cash equivalents and money market funds	$ 75	$ 298
Corporate and foreign bonds	33,060	138,232
Municipal obligations	4,937	15,549
	$ 38,072	$ 154,079

Held-to-maturity securities had gross unrealized gains and losses of $15 and $1,421, respectively, at June 30, 2013 and $11,432 and $33, respectively at June 30, 2012. At June 30, 2013 and 2012, the Alliance held no securities within the held-to-maturity portfolio which had been at an unrealized loss position for over one year. At June 30, 2013, the contractual maturities of held-to-maturity securities were $2,702 due in one year or less, $17,923 due from one to five years and $17,447 due after five years. At June 30, 2012, the contractual maturities of held-to-maturity securities were $11,225 due in one year or less, $67,532 due from one to five years and $75,322 due after five years.

The net investment gain is comprised of the following for the years ending June 30:

	2013	2012
Interest and dividend income, net of fees	$ 13,881	$ 15,213
Net realized (losses) gains on the sale of securities	3,074	(2,595)
Change in net unrealized gains on securities	24,025	(2,884)
	$ 40,980	$ 9,734

At June 30, 2013 and 2012, the Alliance held investments in certain limited partnerships and hedge funds with a recorded value of $37,353 and $34,880, respectively, that have a wide range of investment strategies with various levels of risk. These funds are included within trading securities and do not have readily determinable fair values. The funds are reported at estimated fair market value pursuant to FASB ASC 825, *Financial Instruments*.

NOTE D--DERIVATIVE TRANSACTIONS

The Alliance is a party to a number of derivative transactions. These derivatives have not been designated as hedges and are valued at estimated fair value in the accompanying Consolidated Balance Sheets. Management's primary objective in holding such derivatives is to introduce a

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS - Continued

variable rate component into its fixed rate debt structure. Under the terms of these agreements, changes in the interest rate environment could have a significant effect on the Alliance. Deferred financing and acquisition costs, net of amortization, include $5,791 and $6,135 at June 30, 2013 and 2012, respectively, related to these swaps.

These derivative agreements require that the Alliance post additional collateral for the derivatives' fair market value deficits above specified levels. As of June 30, 2013, the Alliance was not required to post additional collateral. Such investments totaling $13,809 are included as assets limited as to use in the accompanying 2012 Consolidated Balance Sheet.

The following is a summary of the interest rate swap agreements at June 30, 2013 and 2012:

Notional			*Payments by:*		*Estimated Fair Value*	
Amount	*Term*	*Counterparty*	*Receive*	*Pay*	*2013*	*2012*
$ 170,000	4/2008-4/2026	Bank of America, Merrill Lynch	1.27% 7/2012-4/2013 1.07% 5/2013-6/2013	0.00%	$ 3,895	$ 3,500
95,000	4/2008-4/2026	Bank of America, Merrill Lynch	1.27% 7/2012-4/2013 1.08% 5/2013-6/2013	0.00%	2,205	1,983
173,030	4/2008-4/2034	Bank of America, Merrill Lynch	1.32% 7/2012-4/2013 1.12% 5/2013-6/2013	0.00%	(710)	(513)
82,055	12/2007-7/2033	Bank of America, Merrill Lynch	67% USD-LIBOR-BBA	0.312% + USD-SIFMA	(9,322)	(9,520)
50,000	2/2008-7/2038	Bank of America, Merrill Lynch	67% (USD-LIBOR-BBA + 0.15%)	USD-SIFMA	(4,218)	(3,895)
21,400	7/2007-7/2015	Bank of America, Merrill Lynch	1.05% + USD-SIFMA	4.50%	35	(320)
5,524	Various	Various	Various	Various	(70)	(221)
					$ (8,185)	$ (8,986)

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS - Continued

The terms of five of these agreements were modified without settlement during 2013. No gain or loss was realized as a result of the modifications although such modifications did impact the estimated fair value of the interest rate swaps as of June 30, 2013.

The net investment derivative gain is comprised of the following for the years ending June 30:

	2013	*2012*
Settlement income and other	$ 6,661	$ 7,515
Change in estimated fair value	457	(6,198)
	$ 7,118	$ 1,317

These fair values are based on the estimated amount the Alliance would receive, or be required to pay, to enter into equivalent agreements at the valuation date and include an estimated credit value adjustment. The fair value of various derivatives are netted on the Consolidated Balance Sheets based on management's evaluation of the settlement provisions in the master contract. Gross positions of these derivatives are indicated in the table above. Due to the nature of these financial instruments, such estimates of fair value are subject to significant change in the near term.

The Alliance was previously a party to a total return swap with Lehman Brothers as the counterparty. Lehman Brothers filed for bankruptcy in September 2008. The Alliance subsequently received notification from Lehman Brothers Special Financing, Inc. indicating the intent of the counterparty to terminate this agreement effective January 1, 2009. The Alliance and Lehman Brothers Special Financing, Inc. were unable to reach a settlement agreement at the time the swap was terminated. An estimated liability related to the agreement of $10,395 was recognized by the Alliance at June 30, 2012. In addition, a third party held investments with a fair market value of approximately $13,809, at June 30, 2012, as collateral. In 2013, the parties reached a settlement agreement and in full settlement of the liability, the Alliance paid the counterparty $7,375 from the funds held as collateral and the remaining collateral was returned to the Alliance. A gain of approximately $3,020 was recognized on the settlement, which is included within other revenue, gains and support in the accompanying 2013 Consolidated Statement of Operations.

In June 2004, the Alliance entered into an agreement with Bear Stearns (acquired by JP Morgan) whereby Bear Stearns purchased from the Alliance an option to enter into an interest rate swap agreement (swaption) with the Alliance beginning July 1, 2011. During 2012, the counterparty expressed their intent to exercise the swaption on January 1, 2012 and the Alliance exercised its right to terminate the swaption at its fair market value. To effectuate the termination, the Alliance transferred $93,353 of a Guaranteed Investment Contract (GIC), to the third party as a termination payment. A gain of $3,058 was recognized on the termination, which is included within other

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS - Continued

revenue, gains and support in the accompanying 2012 Consolidated Statement of Operations. Net derivative gain in the accompanying 2012 Consolidated Statement of Operations includes an unrealized loss of $4,676 related to this derivative, prior to termination.

Also in June 2004, the Alliance entered into two related forward sale agreements with the counterparty to the swaption agreements and the Master Trustee of the Series 2000 Bonds. In June 2012, the Alliance and the counterparty terminated the agreements. To effectuate the termination, the Alliance agreed to pay $13,429 to the counterparty. The termination payable is included in accounts payable and accrued expenses in the accompanying 2012 Consolidated Balance Sheet. The Alliance recognized a gain of $4,708 on the termination of these agreements, which is included within other revenue, gains and support in the accompanying 2012 Consolidated Statement of Operations.

NOTE E--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30:

	2013	2012
Land	$ 60,180	$ 57,525
Buildings and leasehold improvements	718,489	661,146
Property and improvements held for leasing	77,767	74,914
Equipment	664,469	571,774
Buildings and equipment held under capital lease	671	20,540
	1,521,576	1,385,899
Less: Allowances for depreciation and amortization	(704,002)	(626,552)
	817,574	759,347
Construction in progress (Note N)	66,719	94,278
	$ 884,293	$ 853,625

Accumulated depreciation and amortization on property and improvements held for leasing purposes is $25,146 and $22,951 at June 30, 2013 and 2012, respectively. Net interest capitalized was $4,163 and $3,110 for the years ended June 30, 2013 and 2012, respectively.

During 2012, the Alliance executed an Amendment and Mutual Release Agreement with a vendor whereby the Alliance waived its right to take any action with respect to prior contracts in exchange for professional services in future periods, primarily related to accelerated deployment of information

(Dollars in Thousands)

NOTE E--PROPERTY, PLANT AND EQUIPMENT - Continued

systems. The Alliance recognized approximately $3,386 and $3,799 in 2013 and 2012 as additions to property, plant and equipment with an offsetting gain related to the agreed-upon value of such professional services. The Alliance anticipates recognition of additional amounts in future periods as such services are provided.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt and capital lease obligations consist of the following at June 30:

Description	Maturities	Rates	Outstanding Balance 2013	Outstanding Balance 2012
2012A Hospital Revenue Bonds, net of unamortized premium of $1,817 at June 30, 2013	$55,000 uninsured term bonds, due August 15, 2042, subject to early redemption	5.00%	$ 56,817	$ -
2012B Hospital Revenue Bonds	$28,095 uninsured term bonds, due August 15, 2042, subject to early redemption or tender	Variable, 0.06% at June 30, 2013	28,095	-
2012C Hospital Revenue Bonds	$9,785 uninsured term bonds, due August 15, 2042, subject to early redemption or tender	Variable, 0.06% at June 30, 2013	9,785	-
2011A Hospital Revenue Bonds	$61,185 uninsured term bonds, due July 1, 2033, subject to early redemption or tender	Variable, 0.06% at June 30, 2013	61,185	65,260
2011B Hospital Revenue Bonds	$20,000 uninsured term bonds, due July 1, 2033, subject to early redemption or tender	Variable, 0.06% at June 30, 2013	20,000	20,000
2011C Hospital Revenue Bonds	$48,974 uninsured term bonds, due July 1, 2031, subject to early redemption or tender	Variable, 0.06% at June 30, 2013	48,974	49,875
2011D Hospital Revenue Bonds	$60,705 uninsured term bonds, due July 1, 2031, subject to early redemption or tender	Variable, 0.06% at June 30, 2013	60,705	60,705
2011E Taxable Bonds	$15,960 uninsured term bonds, due July 1, 2026, subject to early redemption or tender	Variable, 0.17% at June 30, 2013	15,960	15,960
2011 Hospital Facility Revenue Refunding and Improvement Bonds (JMH)	$23,095 uninsured term bonds, due July 1, 2033, subject to early redemption or tender	Variable, 1.14% at June 30, 2013	23,095	24,870
2010A Hospital Revenue Bonds, net of unamortized premium of $978 and $1,017 at June 30, 2013 and 2012, respectively	$28,780 uninsured serially, through 2020 $14,985 uninsured term bonds, due July 1, 2025 $19,230 uninsured term bonds, due July 1, 2030 $39,570 uninsured term bonds, due July 1, 2038 $55,480 uninsured term bonds, due July 1, 2038	3.00% to 5.00% 5.38% 5.63% 6.50% 6.00%	159,023	162,952
2010B Hospital Revenue Bonds, net of unamortized premium of $626 and $669 at June 30, 2013 and 2012, respectively	$20,295 uninsured serially, through 2020 $4,355 uninsured term bonds, due July 1, 2023 $4,250 uninsured term bonds, due July 1, 2028	2.50% to 5.00% 5.00% 5.50%	29,526	33,129
2009A Hospital Revenue Bonds, net of unamortized discount of $113 and $117 at June 30, 2013 and 2012, respectively	$655 uninsured term bonds, due July 1, 2019 $1,730 uninsured term bonds, due July 1, 2029 $3,105 uninsured term bonds, due July 1, 2038	7.25% 7.50% 7.75%	5,377	5,443
2009B Hospital Revenue Bonds	$5,470 uninsured term bonds, due July 1, 2038	8.00%	5,470	5,535
2009C Hospital Revenue Bonds, net of unamortized discount of $2,246 and $2,334 at June 30, 2013 and 2012, respectively	$18,800 uninsured term bonds, due July 1, 2019 $20,000 uninsured term bonds, due July 1, 2029 $74,855 uninsured term bonds, due July 1, 2038	7.25% 7.50% 7.75%	111,409	113,621
2008A Hospital Revenue Bonds	$13,245 uninsured term bonds, due July 1, 2038, subject to early redemption or tender	Variable, 0.06% at June 30, 2013	13,245	13,245
2008B Hospital Revenue Bonds	$51,965 uninsured term bonds, due July 1, 2038, subject to early redemption or tender	Variable, 0.06% at June 30, 2013	51,965	52,930
2007B Taxable Hospital Revenue Bonds, sub-series B-1 and B-2	$123,335 uninsured term bonds, due July 1, 2033, subject to early redemption or tender, sub-series B-3 redeemed in 2013	Variable, 0.17% to 0.18% at June 30, 2013	123,335	156,760

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Description	Maturities	Rates	Outstanding Balance 2013	2012
2006A Hospital First Mortgage Revenue Bonds, net of unamortized premium of $135 and $141 at June 30, 2013 and 2012, respectively	$5,295 uninsured serially, through 2019 $7,375 uninsured term bonds, due July 1, 2026 $20,505 uninsured term bonds, due July 1, 2031 $135,175 uninsured term bonds, due July 1, 2036	5.00% 5.25% 5.50% 5.50%	168,485	169,136
2001A Hospital First Mortgage Revenue Bonds	$21,400 term bonds, due July 1, 2026, subject to early redemption or tender	4.50%	21,400	22,300
2000A Hospital First Mortgage Revenue Refunding Bonds	$34,645 insured Capital Appreciation Bonds, interest and principal due July 1, 2026 through 2030	6.63%	34,645	32,431
2000C Hospital First Mortgage Revenue Bonds	$32,040 insured term bonds, due July 1, 2026	8.50%	32,040	33,230
2000D First Mortgage Taxable Bonds	$13,800 insured term bonds, due July 1, 2026	8.50%	13,800	14,315
Capitalized lease obligations secured by equipment	Various monthly payments of principal and interest	Various	1,240	1,645
$1,593 note payable, secured by equipment	Various annual principal payments through July 2014	Unspecified	896	1,343
Capitalized lease obligation secured by medical office building (JMH)	Lease was paid-off in 2013	N/A	-	15,498
Master installment payment agreement	Various quarterly payments through May 2014	Unspecified	2,320	4,438
Master installment payment agreement, secured by equipment	Various quarterly payments through May 2014	Unspecified	1,503	3,032
$1,640 note payable, secured by land	Monthly principal payments of $10 through maturity in July 2015	Unspecified	1,640	1,870
$985 in promissory notes secured by assets of Emmaus Community Healthcare, LLC	Various monthly principal and interest payments through 2019	3.00% - 3.75%	985	1,052
$17,607 term note	Monthly principal and interest payments of $60 beginning November 2012 maturing September 2015; remaining principal due October 2015	Variable, 1.14% at June 30, 2013	17,607	-
$4,238 in notes payable, secured by land	Annual principal payments of $215 beginning October 2013 maturing October 2015; remaining principal due October 2016. Interest is payable monthly.	Variable, 0.19% at June 30, 2013	4,238	-
			1,124,765	1,080,575
	Less current portion		(34,417)	(32,477)
			$ 1,090,348	$ 1,048,098

Series 2012 Bonds: In September 2012, the Alliance issued $55,000 (Series 2012A) fixed rate and $28,095 (Series 2012B) variable rate tax-exempt Hospital Revenue Bonds through The Health and Educational Facilities Board of the City of Johnson City, Tennessee, and $9,785 (Series 2012C) variable rate tax-exempt Hospital Revenue Bonds through the Industrial Development Authority of Wise, Virginia (collectively, the Series 2012 Bonds). The proceeds from the Series 2012A Bonds will be used to finance a surgery center project at JCMC and pay issuance costs related to these Bonds. The proceeds from the Series 2012B and 2012C Bonds will be used to finance or refinance capital improvements and equipment acquisitions and to pay issuance costs associated with these Bonds. The timely payment of the Series 2012B and Series 2012C Bonds is secured by irrevocable transferable direct-pay letters of credit which expire September 17, 2015.

Series 2011 Bonds: In October 2011, the Alliance issued $65,260 (Series 2011A) and $20,000 (Series 2011B) variable rate tax-exempt Hospital Revenue Bonds through The Health and

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Educational Facilities Board of the City of Johnson City, Tennessee, $49,875 (Series 2011C) and $60,705 (Series 2011D) variable rate tax-exempt Hospital Revenue Bonds through the Industrial Development Authority of Smyth, Virginia and $15,960 (Series 2011E) variable rate Taxable Bonds (collectively, the Series 2011 Bonds). The proceeds from the Series 2011A and Series 2011B Bonds were used to finance certain capital acquisitions in the State of Tennessee and pay issuance costs related to these Bonds. The proceeds from the Series 2011C and 2011D Bonds were used to refinance the 2001 NCH Hospital Refunding and Improvement Revenue Bonds, finance capital acquisitions for NCH, JMH and SCCH and to pay issuance costs associated with these Bonds. The Series 2011E Bond proceeds were used to refinance certain capital acquisitions of SCCH and BRMM and pay issuance costs. The timely payment of the Series 2011 Bonds is secured by a letter of credit which expires October 19, 2014.

In November 2011, JMH issued $24,870 (JMH Series 2011) variable rate tax-exempt Hospital Facility Revenue Refunding and Improvement Bonds through the Industrial Development Authority of Smyth County. The proceeds from the JMH Series 2011 Bonds were used to refinance the 1998 Hospital Refunding and Improvement Revenue Bonds, refinance existing indebtedness incurred to finance capital acquisitions and to pay issuance costs associated with the Bonds.

Series 2010 Bonds: In April 2010, the Alliance issued $168,080 (Series 2010A) and $35,935 (Series 2010B) fixed rate Hospital Refunding Revenue Bonds (collectively, the Series 2010 Bonds). Proceeds of the Series 2010A and the Series 2010B Bonds were used to refinance outstanding indebtedness, specifically related to the Alliance's facilities in Tennessee and in Virginia, respectively, fund debt service reserve funds and pay costs of issuance.

Series 2009 Bonds: In March 2009, the Alliance issued $5,560 (Series 2009A), $5,535 (Series 2009B) and $115,955 (Series 2009C) fixed rate Hospital Revenue Bonds (collectively, the Series 2009 Bonds). The proceeds of Series 2009 Bonds were used to refinance a portion of the outstanding Series 2006C Taxable Notes, which were originally issued to finance a capital commitment to SCCH and purchase certain leased assets, finance the acquisition of a majority ownership in JMH, fund a debt service reserve fund and pay costs of issuance. The portion of the 2006C taxable notes which were not refinanced with the Series 2009 Bonds were repaid with cash on hand.

Series 2008 Bonds: In February 2008, the Alliance issued $72,770 (Series 2008A) and $54,230 (Series 2008B) variable rate Hospital Revenue Bonds (collectively, the Series 2008 Bonds). The proceeds of Series 2008 Bonds were primarily used to finance certain future capital projects for the Alliance's hospital facilities and for the repayment of previously issued 2008 Taxable Notes used for the acquisition of RCMC. The payment of principal and interest on the Series 2008 Bonds and the purchase price of any tendered bonds on each series are secured by a separate, irrevocable,

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

transferable, direct-pay letter of credit. A portion ($59,525) of the Series 2008A Bonds were repaid from proceeds of the Series 2010 Bonds.

Series 2007 Bonds: In December 2007, the Alliance issued $104,355 (Series 2007A), $327,170 (Series 2007B taxable) and $36,575 (Series 2007C) variable rate Hospital Revenue Bonds (collectively, the Series 2007 Bonds). The proceeds of Series 2007 Bonds were primarily used to early extinguish a portion of the outstanding Series 2000A Bonds, all of the outstanding 2000B Bonds, all of the outstanding Series 1994 Bonds, and all of the outstanding Series 2006B Bonds; to finance the acquisition of a majority ownership in NCH, and to finance certain capital improvements and equipment acquisitions for the Alliance's hospital facilities. A portion of the outstanding Series 2007A ($91,685) and Series 2007C ($32,840) Bonds were repaid from proceeds of the Series 2010 Bonds.

During 2012, the Alliance redeemed $115,135 of the Series 2007B-1 Bonds and $29,405 of the Series 2007B-3 Bonds. The Alliance redeemed $26,530 of the Series 2007B-3 Bonds during 2013. The payment of principal and interest on the outstanding Sub-Series 2007B Bonds and the purchase price of any tendered bonds on each series are secured by a separate, irrevocable, transferable, direct-pay letter of credit.

Series 2006 Bonds: During 2006, the Alliance issued $173,030 Hospital First Mortgage Revenue Bonds (Series 2006A) and $66,500 Hospital First Mortgage Variable Rate Revenue Bonds (Series 2006B). The proceeds from the sale of the Series 2006A Bonds were used to finance certain future and prior capital projects for the Alliance's hospital facilities and to refund certain existing indebtedness, specifically the Series 2001B Bonds (discussed below) and certain existing short and intermediate term loans and leases, as well as fund a debt service reserve fund. The Series 2006B Bond proceeds were substantially used to refund the remaining outstanding principal of the Series 2001B Bonds and establish a debt service reserve fund.

Series 2001 Bonds: During 2001, the Alliance issued $26,000 Hospital First Mortgage Revenue Bonds (Series 2001A). The Alliance redeemed the 2001A Bonds and released a new Series 2001A to Bank of America Merrill Lynch during 2012.

Series 2000 Bonds: The Hospital First Mortgage Revenue Refunding (Series 2000A Bonds) and First Mortgage Revenue Refunding Bonds (Series 2000B Bonds), were used to advance refund previously existing indebtedness as well as fund a required debt service reserve fund. The Hospital First Mortgage Revenue Bonds (Series 2000C Taxable Bonds) were used to refinance certain mortgage indebtedness of BRMM, and to refund other previously existing indebtedness. The

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

proceeds from the sale of the First Mortgage Bonds (Series 2000D Taxable Bonds) were used primarily to fund working capital for the Alliance.

The Series 2000A Bonds included at issue date $14,680 of insured Capital Appreciation Bonds. Such bonds bear a 0% coupon rate and have a yield of 6.625% annually. The Alliance recognizes interest expense and increases the amount of outstanding debt each year based upon this yield. Total principal and interest due at maturity (2026 through 2030) is $93,675.

Derecognized Bonds: The advance refunding of previously issued debt requires funds to be placed in irrevocable trusts in order to satisfy remaining scheduled principal and interest payments. Management, upon advice of legal counsel, believes the amounts deposited in such irrevocable trust accounts have contractually relieved the Alliance of any future obligations with respect to this debt, and the debt and escrowed securities are not considered liabilities or assets of the Alliance. Therefore, such debt has been derecognized. Debt outstanding and not recognized in the Consolidated Balance Sheet at June 30, 2013 due to previous advance refundings of the Series 2000A Bonds, Series 2000B Bonds, Series 1998C Bonds, and Series 1991 Bonds, totaled approximately $213,060.

The assets placed in the irrevocable trust accounts are also not recognized as assets of the Alliance. These assets consist primarily of various investments, as permitted by bond indentures and other documents, including United States Treasury obligations, an investment contract with MBIA Insurance Corporation (MBIA) in the original amount of $54,300, as well as the Series 2000C and 2000D Bonds which were purchased with the proceeds of the 2000A and 2000B Bonds specifically for the purpose of utilizing the Series 2000C and 2000D Bonds in the irrevocable trust. Therefore, certain of the assets held in the irrevocable trust accounts have future income streams contingent upon payments by the Alliance.

The Alliance instructed the trustee of the 1998C Bonds to liquidate certain investments held in the related irrevocable trust account and to redeem a portion of the 1998C Bonds with the proceeds from the liquidation. The fair value of the liquidated assets exceeded the payment necessary to redeem the 1998C Bonds and the excess was paid to the Alliance. As a result of this transaction, the Alliance recognized a net gain in 2013 and 2012 of $13,847 and $5,337, respectively, which is included in other revenue, gains and support in the accompanying Consolidated Statements of Operations.

Variable Rate Issuances: The variable rate of interest on the Series 2012, Series 2011, Series 2008 and Series 2007 Bonds is determined weekly by the Remarketing Agent, as the rate equal to the lowest rate which, in regard to general financial conditions and other special conditions bearing on the rate, would produce as nearly as possible a par bid for the Bonds in the secondary market. In no

(Dollars in Thousands)

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

event shall the variable rate on the Bonds during any period where interest is calculated weekly exceed the lesser of 12% annually or the maximum contract rate of interest permitted by the applicable State of issue. The Alliance has the option, upon written approval of the holder of the letters of credit, the Remarketing Agent and others, to convert to a medium-term rate period or to a fixed rate.

Early Redemption: Essentially all of the Alliance's bonds are subject to redemption prior to maturity, including optional, mandatory sinking fund and extraordinary redemption, at various dates and prices as described in the respective Bond indentures and other documents.

Other Bonds, Notes Payable and Financing Arrangements: The Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding Bonds. The Bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. The JMH Series 2011 Hospital Refunding and Improvement Revenue Bonds are secured by pledged revenues of JMH, as defined in the Credit Agreement.

The scheduled maturities and mandatory sinking fund payments of the long-term debt and capital lease obligations (excluding interest), exclusive of net unamortized original issue discount and premium, at June 30, 2013 are as follows:

Year Ending June 30,		
2014		$ 34,417
2015		28,191
2016		45,427
2017		32,290
2018		29,253
Thereafter		953,990
		1,123,568
	Net premium	1,197
		$ 1,124,765

Certain members of the Alliance and JMH are each members of separate Obligated Groups. The bond indentures, master trust indentures, letter of credit agreements and loan agreements related to the various bond issues and notes payable contain covenants with which the respective Obligated Groups must comply. These requirements include maintenance of certain financial and liquidity ratios, deposits to trustee funds, permitted indebtedness, use of facilities and disposals of property.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

These covenants also require that failure to meet certain debt service coverage tests will require the deposit of all daily cash receipts of the Alliance into a trust fund. Management has represented the Alliance and JMH are in compliance with all such covenants at June 30, 2013.

In connection with the tax-exempt bonds, the Alliance is required every five years, and at maturity, to remit to the Internal Revenue Service amounts which are due related to positive arbitrage on the borrowed funds. The Alliance performs such computations when required and recognizes any liability at that time. Management does not believe there are any significant arbitrage liabilities at June 30, 2013 or 2012.

During 2012, the Alliance recognized a $2,636 loss on early extinguishment of debt representing the write off of previously deferred and unamortized financing costs generally related to the refinanced or otherwise redeemed portion of the Series 2007B Bonds, Series 1998 JMH Bonds and the Series 2001 NCH Bonds.

NOTE G--SELF-INSURANCE PROGRAMS

The Alliance is substantially self-insured for professional and general liability claims and related expenses. The Alliance maintains a $25,000 umbrella liability policy that attaches over the self-insurance limits of $10,000 per claim and a $15,000 annual aggregate retention. The Alliance's insurance program also provides professional liability coverage for certain affiliates and joint ventures.

The Alliance is also substantially self-insured for workers' compensation claims in the State of Tennessee and has established estimated liabilities for both reported and unreported claims. The Alliance maintains a stop-loss policy that attaches over the self-insurance limits of $1,000 per occurrence and $1,000 annual aggregate retention. In the State of Virginia, the Alliance is not self-insured and maintains workers' compensation insurance through commercial carriers.

At June 30, 2013, the Alliance is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through June 30, 2013 that may result in the assertion of additional claims, and other unreported claims may be asserted arising from services provided in the past. Alliance management has estimated and accrued for the cost of these unreported claims based on historical data and actuarial projections. The estimated net present value of malpractice and workers' compensation claims, both reported and unreported, as of June 30, 2013 and 2012 was $12,348 and $12,896, respectively. The discount rate utilized was 5% at June 30, 2013 and 2012.

(Dollars in Thousands)

NOTE G--SELF-INSURANCE PROGRAMS - Continued

Additionally, the Alliance is self-insured for employee health claims and recognizes expense each year based upon actual claims paid and an estimate of claims incurred but not yet paid, including a catastrophic claims reserve based on historical claims in excess of $75. Such amount is included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

NOTE H--NET PATIENT SERVICE REVENUE

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the accompanying Consolidated Statements of Operations is as follows for the years ended June 30:

	2013	2012
Inpatient service charges	$ 2,086,519	$ 2,095,036
Outpatient service charges	2,120,400	1,982,154
Gross patient service charges	4,206,919	4,077,190
Less:		
Estimated contractual adjustments and other discounts	3,058,580	2,899,678
Charity care	103,094	102,462
Provision for bad debts	112,497	122,917
	3,274,171	3,125,057
Net patient service revenue	$ 932,748	$ 952,133

Patient service revenue, net of contractual allowances and discounts is composed of the following for the years ended June 30:

	2013	2012
Third-party payers	946,979	$ 968,101
Patients	98,266	106,949
Patient service revenue	$ 1,045,245	$ 1,075,050

Patient deductibles and copayments under third-party payment programs are included within the patient amounts above.

NOTE H--NET PATIENT SERVICE REVENUE - Continued

Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Alliance analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not paid or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Alliance records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between rates and the amounts actually collected after all reasonable collections efforts have been exhausted is charged against the allowance for uncollectible accounts.

The Alliance's allowance for doubtful accounts totaled $49,449 and $52,696 at June 30, 2013 and 2012, respectively. The allowance for doubtful accounts decreased from 26% of patient accounts receivable, net of contractual allowances, at June 30, 2012 to 23% of patient accounts receivable, net of contractual allowances, as of June 30, 2013. During 2013, MSHA began recording contractual allowances at time-of-billing for three additional payers, two of whom are MSHA's largest commercial payers. Previously, MSHA had recorded an allowance for bad debt for those three payers in addition to an estimated allowance for contractual adjustments. As a result of a more accurate methodology for recording contractual allowances for those three payers, MSHA was able to decrease its allowance for bad debts by a minimal amount. The provision for bad debts associated with the Alliance's ancillary service lines are not significant.

NOTE I--THIRD-PARTY REIMBURSEMENT

The Alliance renders services to patients under contractual arrangements with Medicare, Medicaid, TennCare, Blue Cross and various other commercial payers. The Medicare program pays for inpatient services on a prospective basis. Payments are based upon diagnosis related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. The Alliance also receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid and other low income patients. Most Medicare outpatient services are reimbursed on a prospectively determined payment methodology. The Medicare program also reimburses certain other services on the basis of reasonable cost, subject to various prescribed limitations and reductions.

NOTE I--THIRD-PARTY REIMBURSEMENT - Continued

Reimbursement under the State of Tennessee's Medicaid waiver program (TennCare) for inpatient and outpatient services is administered by various managed care organizations (MCOs) and is based on diagnosis related group assignments, a negotiated per diem or fee schedule basis. The Alliance also receives additional supplemental payments from the State of Tennessee. These supplemental payments recognized totaled $8,455 and $11,300 for the years ended June 30, 2013 and 2012, respectively. Such payments are not guaranteed in future periods.

The Virginia Medicaid program reimbursement for inpatient hospital services is based on a prospective payment system using both a per case and per diem methodology. Additional payments are made for the allowable costs of capital. Payments for outpatient services are based on Medicare cost reimbursement principles and settled through the filing of an annual Medicaid cost report.

Amounts earned under the contractual agreements with the Medicare and Medicaid programs are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. 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. During 2013, the State of Virginia outsourced its Medicaid program to six managed care organizations. ISHN provides the provider network for Southwest Virginia to five Virginia Medicaid managed care organizations; two of which are on an exclusive basis. ISHN is not at-risk under these contracts.

Activity with respect to audits and reviews of the governmental programs in the healthcare industry has increased and is expected to increase in the future. No additional specific reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts, if any. Management believes that any adjustments from these increased audits and reviews will not have a material adverse impact on the consolidated financial statements. However, due to uncertainties in the estimation, it is at least reasonably possible that management's estimate will change in 2014, although the amount of any change cannot be estimated. The impact of final settlements of cost reports or changes in estimates increased net patient service revenue by $1,328 in 2013 and decreased net patient service revenue by $1,556 in 2012.

Participation in the Medicare program subjects the Alliance to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the program. Management believes that adequate provision has been made for any adjustments, fines or penalties which may result from final settlements or violations of other rules or regulations. Management has represented that the Alliance is in substantial compliance with these rules and regulations as of June 30, 2013.

The Alliance has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and employer groups. The basis

NOTE I--THIRD-PARTY REIMBURSEMENT - Continued

for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

NOTE J--EMPLOYEE BENEFIT PLANS

The Alliance sponsors a retirement plan (the Plan) which covers substantially all employees. The Plan is a defined contribution plan which consists principally of employer-funded contributions. During 2013 and 2012, the Alliance made contributions to the Plan under a stratified system, whereby the Alliance's contribution percentage is based on each employee's years of service. Employees of certain other subsidiaries are covered by other plans, although such plans are not significant. The total expense related to defined contribution plans for the years ended June 30, 2013 and 2012 was $16,121 and $15,072, respectively.

NCH maintains a defined benefit pension plan and a post-retirement employee benefit plan. The accrued unfunded pension liability was $3,028 and $2,560, and the accrued unfunded post-retirement liability was $4,943 and $4,554 at June 30, 2013 and 2012, respectively.

The Alliance sponsors a secured executive benefit program (SEBP) for certain key executives. Contributions to the plan by the Alliance are based on an annual amount of funding necessary to produce a target benefit for the participants at their retirement date, although the Alliance does not guarantee any level of benefit will be achieved. The Alliance contributed $1,020 and $1,734 to the plan during 2013 and 2012, respectively. Other assets at June 30, 2013 and 2012 include $10,721 and $9,675, respectively, related to the Alliance's portion of the benefits which are recoverable upon the death of the participant. In addition, the Alliance sponsors a Section 457(f) plan for certain key executives. The Alliance contributed $294 and $452 to the Section 457(f) plan during 2013 and 2012, respectively.

NOTE K--CONCENTRATION OF RISK

The Alliance has locations primarily in upper East Tennessee and Southwest Virginia which is considered a geographic concentration. The Alliance grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. Net patient service revenue from Washington County, Tennessee operations were approximately 51% and 51% of total net patient service revenue for 2013 and 2012, respectively.

The mix of receivables from patients and third-party payers based on charges at established rates is as follows as of June 30:

(Dollars in Thousands)

NOTE K--CONCENTRATION OF RISK - Continued

	2013	*2012*
Medicare	38%	36%
Tenncare/Medicaid	16%	14%
Commercial	28%	26%
Other third-party payers	9%	13%
Patients	9%	11%
	100%	100%

Approximately 88% and 94% of the consolidated total revenue, gains and support were related to the provision of healthcare services during 2013 and 2012, respectively. Admitting physicians are primarily practitioners in the regional area.

Two of the Alliance's Virginia hospitals' employees are covered under collective bargaining agreements which extend through February 2014 and January 2015, respectively.

The Hospital maintains bank accounts at various financial institutions covered by the Federal Deposit Insurance Corporation (FDIC). At times throughout the year, the Alliance may maintain bank account balances in excess of the FDIC insured limit. Management believes the credit risk associated with these deposits is not significant.

The Alliance routinely invests in investment vehicles as listed in Note C. The Alliance's investment portfolio is managed by outside investment management companies. Investments in corporate and foreign bonds, municipal obligations, money market funds, equities and other vehicles that are held by safekeeping agents are not insured or guaranteed by the U.S. government.

NOTE L--INCOME TAXES

BRMM and its subsidiaries file a consolidated federal tax return and separate state tax returns. As of June 30, 2013 and 2012, BRMM and its subsidiaries had net operating loss carryforwards for consolidated federal purposes of $33,620 and $35,968, respectively, related to operating loss carryforwards which expire through 2031. At June 30, 2013 and 2012, BRMM had state net operating loss carryforwards of $70,347 and $69,403, respectively, which expire through 2027. The net operating loss carryforwards may be offset against future taxable income to the extent permitted by the Internal Revenue Code and Tennessee Code Annotated.

NOTE L--INCOME TAXES - Continued

At June 30, 2013 and 2012, SWCH had federal and state net operating loss carryforwards of $5,906 and $5,614, respectively, which expire through 2032. The net operating loss carryforwards may be off-set against future taxable income to the extent permitted by the Internal Revenue Code and tax codes of the Commonwealth of Virginia.

Net deferred tax assets related to these carryforwards and other deferred tax assets have been substantially offset through valuation allowances equal to these amounts. Income taxes paid relate primarily to state taxes for certain subsidiaries and federal alternative minimum tax.

NOTE M--RELATED PARTY TRANSACTIONS

The Alliance enters into transactions with entities affiliated with certain members of the Board of Directors including transactions to construct Alliance facilities and provide professional services to the Alliance. Board members refrain from discussion and abstain from voting on transactions with entities with which they are related.

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES

Construction in Progress: Construction in progress at June 30, 2013 represents costs incurred related to various hospital and medical office building facility renovations and additions and information technology infrastructure. The Alliance has outstanding contracts and other commitments related to the completion of these projects, and the cost to complete these projects is estimated to be approximately $39,110 at June 30, 2013. The Alliance does not expect any significant costs to be incurred for infrastructure improvements to assets held for resale.

Physician Contracts: BRMM employs physicians to provide services to BRMM's physician practices through employment agreements which provide annual compensation, plus incentives based upon specified productivity levels. These contracts have various terms.

In addition, the Alliance has entered into contractual relationships with non-employed physicians to provide services in Upper East Tennessee and Southwest Virginia. These contracts guarantee certain base payments and allowable expenses and have terms of varying lengths. Amounts drawn and outstanding under each agreement are treated as a loan bearing interest at various rates and are subject to repayment over a specified period. The physician notes may also be amortized by virtue of the physician's continued practice in the specified community during the repayment period. A net receivable of $884 and $1,436 related to these agreements is included in the accompanying Consolidated Balance Sheets at June 30, 2013 and 2012, respectively.

(Dollars in Thousands)

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES - Continued

Employee Scholarships: The Alliance offers scholarships to certain individuals which require that the recipients return to the Alliance to work for a specified period of time after they complete their degree. Amounts due are then forgiven over a specific period of time as provided in the individual contracts. If the recipient does not return and work the required period of time, the funds disbursed on their behalf become due immediately and interest is charged until the funds are repaid. Other receivables at June 30, 2013 and 2012 include $9,021 and $8,005, respectively, related to students in school, graduates working at the Alliance and amounts due from others who are no longer in the scholarship program, net of an estimated allowance.

Operating Leases and Maintenance Contracts: Total lease expense for the years ended June 30, 2013 and 2012 was $8,739 and $8,823, respectively. Future minimum lease payments for each of the next five years and in the aggregate for the Alliance's noncancellable operating leases with remaining lease terms in excess of one year are as follows:

Year Ending June 30,		
2014	$	5,165
2015		6,044
2016		4,491
2017		2,459
2018		1,848
Thereafter		6,297
	$	26,304

Asset Retirement Obligation: The Alliance has identified asbestos in certain facilities and is required by law to dispose of it in a special manner if the facility undergoes major renovations or is demolished; otherwise, the Alliance is not required to remove the asbestos from the facility. The Alliance has complied with regulations by treating the asbestos so that it presents no known immediate or future safety concerns. An asset retirement obligation has been established to the extent that sufficient information exists upon which to estimate the liability.

Other: The Alliance is a party to various transactions and agreements in the normal course of business, which include purchase and re-purchase agreements, put arrangements and other commitments, which may bind the Alliance to undertake additional transactions or activities in the future. In addition, the Alliance has agreed to guarantee a portion of the outstanding indebtedness of a joint venture. Management estimates that the fair value of the guarantee of this debt is immaterial as of June 30, 2013.

(Dollars in Thousands)

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES - Continued

Healthcare Industry: Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

In March 2010, Congress adopted comprehensive health care insurance legislation, *Patient Care Protection and Affordable Care Act* and *Health Care and Education Reconciliation Act*. The legislation, among other matters, is designated to expand access to coverage to substantively all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing TennCare and Medicaid coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

NOTE O--RENTAL INCOME UNDER OPERATING LEASES

The Alliance leases rental properties to third parties, most of whom are physician practices, for various terms, generally five years. The following is a schedule by year and in the aggregate of minimum future rental income due under noncancellable operating leases at June 30, 2013:

Year Ending June 30,		
2014	$	1,779
2015		1,487
2016		727
2017		379
2018		248
Thereafter		225
Total minimum future rentals	$	4,845

NOTE P--FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Alliance using available market information as of June 30, 2013 and 2012, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Alliance could realize in a current market exchange. The carrying value of substantially all financial instruments approximates fair value due to the nature or term of the instruments, except as described below.

NOTE P--FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Investment in Joint Ventures: It is not practical to estimate the fair market value of the investments in joint ventures.

Other Long-Term Liabilities: Estimates of reported and unreported professional liability claims, pension and post-retirement liabilities are discounted to approximate their estimated fair value. It is not practical to estimate the fair market value of other long-term liabilities due to uncertainty of when these amounts may be paid. Other long-term liabilities are not discounted.

Long-Term Debt: The fair value of long-term debt is estimated based upon quotes obtained from brokers for bonds and discounted future cash flows using current market rates for other debt. For long-term debt with variable interest rates, the carrying value approximates fair value.

The estimated fair value of the Alliance's financial instruments that have carrying values different from fair value is as follows at June 30:

	2013		***2012***	
	Carrying Value	***Estimated Fair Value***	***Carrying Value***	***Estimated Fair Value***
FINANCIAL LIABILITIES:				
Long-term debt	$ 1,124,765	$ 1,167,846	$ 1,080,575	$ 1,150,201

NOTE Q--FAIR VALUE MEASUREMENT

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation 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 based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The Alliance's Level 2 investments are valued primarily using the market valuation approach.

(Dollars in Thousands)

NOTE Q--FAIR VALUE MEASUREMENT - Continued

- Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Alliance's own assumptions.

In instances where the determination of the fair value hierarchy 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 Alliance'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.

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis and long-term debt as disclosed at fair value as of June 30, 2013 and 2012:

	Total	*Level 1*	*Level 2*	*Level 3*
June 30, 2013				
Cash, cash equivalents and money market funds	$ 66,075	$ 66,075	$ -	$ -
U.S. Government securities	25,905	25,905	-	-
U.S. Agency securities	45,997	45,997	-	-
Corporate and foreign bonds	179,880	-	179,880	-
Municipal obligations	17,749	-	17,749	-
Preferred and asset backed securities	3,491	-	3,491	-
U.S. equity securities	10,944	10,944	-	-
Mutual funds	186,028	125,479	60,548	
Other	37,353	-	-	37,353
Total assets	$ 573,422	$ 274,400	$ 261,668	$ 37,353
Fair value of derivative agreements - Note D	$ (8,185)	$ -	$ -	$ (8,185)
Fair value of long-term debt	$ (1,167,846)	$ -	$ -	$ (1,167,846)

(Dollars in Thousands)

NOTE Q--FAIR VALUE MEASUREMENT - Continued

	Total	*Level 1*	*Level 2*	*Level 3*
June 30, 2012				
Cash, cash equivalents and money market funds	$ 85,017	$ 85,017	$ -	$ -
U.S. Government securities	15,693	15,693	-	-
U.S. Agency securities	62,437	62,437	-	-
Corporate and foreign bonds	52,581	-	52,581	-
Municipal obligations	961	-	961	-
Preferred and asset backed securities	11,183	-	11,183	-
U.S. equity securities	28,344	28,344	-	-
Mutual funds	141,968	97,600	44,368	-
Other	34,880	-	-	34,880
Total assets	$ 433,064	$ 289,091	$ 109,093	$ 34,880
Fair value of derivative agreements - Note D	$ (19,381)	$ -	$ -	$ (19,381)
Fair value of long-term debt	$ (1,150,201)	$ -	$ -	$ (1,150,201)

The valuation of the Alliance's derivative agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses certain observable market-based inputs. The fair values of interest rate agreements are determined by netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates and the underlying notional amount. The Alliance also incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty's nonperformance or credit risk in the fair value measurements. The CVA on the Alliance's interest rate swap agreements at June 30, 2013 and 2012 resulted in a decrease in the fair value of the related liability of $3,080 and $5,726, respectively.

A certain portion of the inputs used to value its interest rate swap agreements, including the forward interest rate curves and market perceptions of the Alliance's credit risk used in the CVAs, are unobservable inputs available to a market participant. As a result, the Alliance has determined that the interest rate swap valuations are classified in Level 3 of the fair value hierarchy.

The following tables provide a summary of changes in the fair value of the Alliance's Level 3 financial assets and liabilities during the fiscal years ended June 30, 2013 and 2012:

(Dollars in Thousands)

NOTE Q--FAIR VALUE MEASUREMENT - Continued

	Trading Securities	Derivatives, Net
July 1, 2011	$ 32,718	$ (110,732)
Total unrealized/realized gains in the Performance Indicator, net	1,466	(6,198)
Net investment income	1,221	515
Purchases	5,107	-
Settlements	-	97,034
Distributions	(5,632)	-
June 30, 2012	34,880	(19,381)
Total unrealized/realized gains in the Performance Indicator, net	1,614	457
Net investment income	1,360	399
Purchases	807	-
Settlements	-	10,340
Distributions	(1,308)	-
June 30, 2013	$ 37,353	$ (8,185)

There were no changes in valuation techniques in 2013 or 2012.

NOTE R--OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

The Alliance does not present expense information by functional classification because its resources and activities are primarily related to providing healthcare services. Further, since the Alliance receives substantially all of its resources from providing healthcare services in a manner similar to business enterprises, other indicators contained in these consolidated financial statements are considered important in evaluating how well management has discharged their stewardship responsibilities.

NOTE S--SUBSEQUENT EVENTS

On March 28, 2013, the Alliance executed an agreement to acquire Unicoi County Memorial Hospital (UCMH), a 48-bed acute care hospital located in Erwin, Tennessee. UCMH has approximately 250 employees and offers emergency, surgical, and home health services. Nursing home services are provided in a 46 licensed bed long term care facility. The Alliance will fund the acquisition from cash flow and intends to construct a new acute care hospital in Erwin, Tennessee. After consideration of the revenues and expenses expected from operation of the facility, management of the Alliance does not expect this acquisition to have a material effect on the Alliance. The Tennessee attorney general's office is expected to approve the transaction and the Alliance anticipates that Unicoi County Memorial Hospital will become a member of Mountain States Health Alliance on or around November 1, 2013.

NOTE S--SUBSEQUENT EVENTS - Continued

In July 2013, the Alliance issued $16,235 (Series 2013A) tax-exempt variable rate Hospital Revenue Bonds and $99,680 (Series 2013B) variable rate Taxable Hospital Refunding Revenue Bonds through The Health and Educational Facilities Board of the City of Johnson City, Tennessee. The proceeds from the Series 2013A Bonds will be used to finance or refinance capital improvements and equipment acquisitions and pay issuance costs related to these Bonds. The proceeds from the Series 2013B Bonds will be used to refund $97,915 of the Series 2007B-2 Bonds and to pay issuance costs associated with these Bonds. Contemporaneously with the issuance of the Series 2013A and Series 2013B Bonds, the Alliance refunded the Series 2008A, Series 2008B, Series 2011C, Series 2011D, Series 2012B and Series 2012C through private placements with financial institutions.

At June 30, 2013 and 2012, the Alliance owned membership units in Premier, Inc. Subsequent to yearend Premier, as part of a reorganization, converted to a publically traded entity. As part of its reorganization, certain of the Alliance's membership units were redeemed for approximately $3,000 and a gain was recognized on the sale of these units. Unredeemed units continue to be held by the Alliance and may be effectively exchanged for Class A common stock of Premier ratably over a seven year period. The unredeemed membership units may be exchanged for up to 723 thousand Class A shares.

Supplemental Schedules

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet
(Dollars in Thousands)

June 30, 2013

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Other Entities	Mountain States Properties	Eliminations	Total
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 659	$ 48,607	$ -	$ 49,266	$ 25,137	$ 499	$ -	$ 74,902
Current portion of investments	-	20,387	-	20,387	(1)	-	-	20,386
Patient accounts receivable, less estimated allowance for uncollectible accounts	6,928	128,708	-	135,636	28,551	-	-	164,187
Other receivables, net	649	20,580	-	21,229	12,862	377	(1,000)	33,468
Inventories and prepaid expenses	605	23,068	-	23,673	7,333	67	-	31,073
TOTAL CURRENT ASSETS	8,841	241,350	-	250,191	73,882	943	(1,000)	324,016
INVESTMENTS, less amounts required to meet current obligations	19,735	416,147	-	435,882	110,109	55,361	-	601,352
EQUITY IN AFFILIATES	146,284	333,086	(161,250)	318,120	-	-	(318,120)	-
PROPERTY, PLANT AND EQUIPMENT, net	18,743	614,210	-	632,953	197,192	54,148	-	884,293
OTHER ASSETS								
Goodwill	7,575	144,708	-	152,283	2,108	-	-	154,391
Net deferred financing, acquisition costs and other charges	270	26,800	-	27,070	860	550	-	28,480
Other assets	9,663	28,193	-	37,856	6,126	2,562	-	46,544
TOTAL OTHER ASSETS	17,508	199,701	-	217,209	9,094	3,112	-	229,415
	$ 211,111	$ 1,804,494	$ (161,250)	$ 1,854,355	$ 390,277	$ 113,564	$ (319,120)	$ 2,039,076

* Management Services Organization only

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet - Continued (Dollars in Thousands)

June 30, 2013

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Other Entities	Mountain States Properties	Eliminations	Total
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Accrued interest payable	$ 46	$ 19,622	$ -	$ 19,668	$ 38	$ -	$ -	$ 19,706
Current portion of long-term debt and capital lease obligations	13	31,422	-	31,435	2,982	-	-	34,417
Accounts payable and accrued expenses	5,543	74,934	-	80,477	12,902	923	-	94,302
Accrued salaries, compensated absences and amounts withheld	3,836	44,713	-	48,549	15,116	-	-	63,665
Payables to (receivables from) affiliates, net	16,697	2,194	-	18,891	7,738	(26,629)	-	-
Estimated amounts due to third-party payers, net	-	25,970	-	25,970	805	-	-	26,775
TOTAL CURRENT LIABILITIES	26,135	198,855	-	224,990	39,581	(25,706)	-	238,865
OTHER LIABILITIES								
Long-term debt and capital lease obligations, less current portion	13,663	1,036,740	-	1,050,403	40,945	-	(1,000)	1,090,348
Estimated fair value of derivatives	-	8,220	-	8,220	-	(35)	-	8,185
Deferred revenue	-	2,130	-	2,130	86	-	-	2,216
Estimated professional liability self-insurance	2,576	5,198	-	7,774	984	-	-	8,758
Other long-term liabilities	7,487	10,058	-	17,545	176	-	-	17,721
TOTAL LIABILITIES	49,861	1,261,201	-	1,311,062	81,772	(25,741)	(1,000)	1,366,093
NET ASSETS								
Unrestricted net assets								
Mountain States Health Alliance	161,250	490,414	(161,250)	490,414	171,901	139,305	(311,206)	490,414
Noncontrolling interests in subsidiaries	-	39,923	-	39,923	123,945	-	5,746	169,614
TOTAL UNRESTRICTED NET ASSETS	161,250	530,337	(161,250)	530,337	295,846	139,305	(305,460)	660,028
Temporarily restricted net assets								
Mountain States Health Alliance	-	12,776	-	12,776	12,531	-	(12,531)	12,776
Noncontrolling interests in subsidiaries	-	53	-	53	1	-	(2)	52
TOTAL TEMPORARILY RESTRICTED NET ASSETS	-	12,829	-	12,829	12,532	-	(12,533)	12,828
Permanently restricted net assets	-	127	-	127	127		(127)	127
TOTAL NET ASSETS	161,250	543,293	(161,250)	543,293	308,505	139,305	(318,120)	672,983
	$ 211,111	$ 1,804,494	$ (161,250)	$ 1,854,355	$ 390,277	$ 113,564	$ (319,120)	$ 2,039,076

*Management Services Organization only.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Operations (Dollars in Thousands)

Year Ended June 30, 2013

	Blue Ridge Medical Management *	Other Obligated Group Members	Eliminations	Total Obligated Group	Other Entities	Mountain States Properties	Eliminations	Total
Revenue, gains and support:								
Patient service revenue, net of contractual allowances and discounts	$ 60,981	$ 800,370	$ (2,002)	$ 859,349	$ 185,896	$ -	$ -	$ 1,045,245
Provision for bad debts	(5,851)	(84,508)	-	(90,359)	(22,138)	-	-	(112,497)
Net patient service revenue	55,130	715,862	(2,002)	768,990	163,758	-	-	932,748
Premium revenue	-	-	-	-	1,003	-	-	1,003
Net investment gain	2,029	27,241	-	29,270	7,543	4,230	(63)	40,980
Net derivative gain	-	5,803	-	5,803	133	1,182	-	7,118
Other revenue, gains and support	47,477	46,942	(36,666)	57,753	86,929	8,384	(75,611)	77,455
Equity in net gain (loss) of affiliates	3,380	731	(4,151)	(40)	-	-	40	-
TOTAL REVENUE, GAINS AND SUPPORT	108,016	796,579	(42,819)	861,776	259,366	13,796	(75,634)	1,059,304
Expenses:								
Salaries and wages	23,274	271,876	-	295,150	65,919	430	(5,909)	355,590
Physician salaries and wages	52,482	1,354	-	53,836	70,450	-	(50,028)	74,258
Contract labor	1,169	1,505	-	2,674	1,545	-	(277)	3,942
Employee benefits	8,493	56,307	(2,067)	62,733	17,033	57	(5,233)	74,590
Fees	4,997	114,967	(36,005)	83,959	28,619	692	(7,379)	105,891
Supplies	2,989	133,185	-	136,174	26,976	13	(208)	162,955
Utilities	604	12,172	-	12,776	3,065	1,019	(3)	16,857
Medical Costs	-	-	-	-	1,039	-	-	1,039
Other	8,981	48,958	(596)	57,343	25,324	4,118	(6,574)	80,211
Depreciation	1,828	58,199	-	60,027	16,664	2,250	-	78,941
Amortization	34	2,179	-	2,213	47	-	-	2,260
Interest and taxes	(986)	42,213	-	41,227	684	1,355	(63)	43,203
TOTAL EXPENSES	103,865	742,915	(38,668)	808,112	257,365	9,934	(75,674)	999,737
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ 4,151	$ 53,664	$ (4,151)	$ 53,664	$ 2,001	$ 3,862	$ 40	$ 59,567

*Management Services Organization only.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Changes in Net Assets (Dollars in Thousands)

Year Ended June 30, 2013

	Blue Ridge Medical Management *	*Other Obligated Group Members*					*Other Entities*					
		Mountain States Health Alliance	*Noncontrolling Interests*	*Eliminations*	*Total Obligated Group*	*Mountain States Health Alliance*	*Noncontrolling Interests*	*Total Other Entities*	*Mountain States Properties*	*Eliminations*	*Total*
UNRESTRICTED NET ASSETS:											
Excess of Revenue, Gains and Support over Expenses and Losses	$ 4,151	$ 52,692	$ 972	$ (4,151)	$ 53,664	$ (2,539)	$ 4,540	$ 2,001	$ 3,862	$ 40	$ 59,567
Pension and other defined benefit plan adjustments	-	(172)	(171)	-	(343)	(2)	(2)	(4)	-	4	(343)
Net assets released from restrictions used for the purchase of property, plant and equipment	-	1,506	-	-	1,506	1,506	-	1,506	-	(1,506)	1,506
Distributions to noncontrolling interests	-	-	-	-	-	-	(49)	(49)	-	-	(49)
Net asset transfers	-	-	-	-	-	8,820	2,080	10,900	-	(10,900)	-
INCREASE IN UNRESTRICTED NET ASSETS	4,151	54,026	801	(4,151)	54,827	7,785	6,569	14,354	3,862	(12,362)	60,681
TEMPORARILY RESTRICTED NET ASSETS:											
Restricted grants and contributions	-	4,969	18	-	4,987	4,556	8	4,564	-	(4,561)	4,990
Net assets released from restrictions	-	(3,416)	(16)	-	(3,432)	(2,980)	(8)	(2,988)	-	2,985	(3,435)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	1,553	2	-	1,555	1,576	-	1,576	-	(1,576)	1,555
INCREASE IN TOTAL NET ASSETS	4,151	55,579	803	(4,151)	56,382	9,361	6,569	15,930	3,862	(13,938)	62,236
NET ASSETS, BEGINNING OF YEAR	157,099	447,738	39,173	(157,099)	486,911	175,198	117,377	292,575	135,443	(304,182)	610,747
NET ASSETS, END OF YEAR	$ 161,250	$ 503,317	$ 39,976	$ (161,250)	$ 543,293	$ 184,559	$ 123,946	$ 308,505	$ 139,305	$ (318,120)	$ 672,983

*Management Services Organization only.

NOTE A--OBLIGATED GROUP MEMBERS

As described in Note F to the consolidated financial statements, the Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding bonds. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. In accordance with Article Six, Section 6.6 of the Amended and Restated Master Trust Indenture between Mountain States Health Alliance and the Bank of New York Mellon Trust Company, NA as Master Trustee, those members pledged include Johnson City Medical Center Hospital, Indian Path Medical Center, Franklin Woods Community Hospital, Sycamore Shoals Hospital, Johnson County Community Hospital, Russell County Medical Center and Blue Ridge Medical Management Corporation (parent company only), collectively defined as the Obligated Group (Obligated Group). In 2012, NCH and SCCH (hospitals only) were admitted into the Obligated Group.

The supplemental consolidating schedules include the accounts of the members of the Obligated Group after elimination of all significant intergroup accounts and transactions. Certain other subsidiaries of the Alliance, Mountain States Properties, Inc. (MSP) and all other affiliates (Other Entities), are not pledged to secure the payment of the outstanding bonds as they are not part of the Obligated Group. These affiliates have been accounted for within the Obligated Group based upon the Alliance's original and subsequent investments, as adjusted for the Alliance's pro rata share of income or losses and any distributions, and are included as a part of equity in affiliates in the supplemental consolidating balance sheet.

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements
(and Supplemental Schedules)

Years Ended June 30, 2014 and 2013

PYA
Certified Public Accountants

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Schedules)
(Dollars in Thousands)

Years Ended June 30, 2014 and 2013

Audited Consolidated Financial Statements

Supplemental Schedules

PERSHING YOAKLEY & ASSOCIATES, P.C.
One Cherokee Mills, 2220 Sutherland Avenue
Knoxville, TN 37919
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PYA
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mountain States Health Alliance:

We have audited the accompanying consolidated financial statements of Mountain States Health Alliance and its subsidiaries (the Alliance), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Alliance's preparation and fair presentation of the consolidated 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 Alliance'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain States Health Alliance and its subsidiaries as of June 30, 2014 and 2013, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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

Pershing Yoakley & Associates PC

Knoxville, Tennessee
October 29, 2014

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30, 2014	June 30, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 59,185**	$ 74,902
Current portion of investments	**25,029**	20,386
Patient accounts receivable, less estimated allowances for uncollectible accounts of $47,853 in 2014 and $49,449 in 2013	**161,318**	164,187
Other receivables, net	**45,502**	33,468
Inventories and prepaid expenses	**30,838**	31,073
TOTAL CURRENT ASSETS	**321,872**	324,016
INVESTMENTS, less amounts required to meet current obligations	**648,475**	601,352
PROPERTY, PLANT AND EQUIPMENT, net	**881,429**	884,293
OTHER ASSETS		
Goodwill	**156,613**	154,391
Net deferred financing, acquisition costs and other charges	**25,841**	28,480
Other assets	**48,350**	46,544
TOTAL OTHER ASSETS	**230,804**	229,415
	$ 2,082,580	$ 2,039,076

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets - Continued
(Dollars in Thousands)

	June 30, 2014	2013
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	$ **18,648**	$ 19,706
Current portion of long-term debt and capital lease obligations	**30,618**	34,417
Accounts payable and accrued expenses	**87,126**	94,302
Accrued salaries, compensated absences and amounts withheld	**72,181**	63,665
Estimated amounts due to third-party payers, net	**10,463**	26,775
TOTAL CURRENT LIABILITIES	**219,036**	238,865
OTHER LIABILITIES		
Long-term debt and capital lease obligations, less current portion	**1,075,069**	1,090,348
Estimated fair value of derivatives	**10,603**	8,185
Estimated professional liability self-insurance	**8,957**	8,758
Other long-term liabilities	**35,974**	19,937
TOTAL LIABILITIES	**1,349,639**	1,366,093
COMMITMENTS AND CONTINGENCIES - Notes D, F, G, and N		
NET ASSETS		
Unrestricted net assets		
Mountain States Health Alliance	**541,979**	490,414
Noncontrolling interests in subsidiaries	**178,547**	169,614
TOTAL UNRESTRICTED NET ASSETS	**720,526**	660,028
Temporarily restricted net assets		
Mountain States Health Alliance	**12,204**	12,776
Noncontrolling interests in subsidiaries	**84**	52
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**12,288**	12,828
Permanently restricted net assets	**127**	127
TOTAL NET ASSETS	**732,941**	672,983
	$ **2,082,580**	$ 2,039,076

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations
(Dollars in Thousands)

	Year Ended June 30,	
	2014	*2013*
Revenue, gains and support:		
Patient service revenue, net of contractual allowances and discounts	**$ 1,050,426**	$ 1,045,245
Provision for bad debts	**(122,642)**	(112,497)
Net patient service revenue	**927,784**	932,748
Premium revenue	**10,683**	1,003
Net investment gain	**50,703**	40,980
Net derivative gain	**3,219**	7,118
Other revenue, gains and support	**62,457**	77,455
TOTAL REVENUE, GAINS AND SUPPORT	**1,054,846**	1,059,304
Expenses and losses:		
Salaries and wages	**340,589**	355,590
Physician salaries and wages	**77,636**	74,258
Contract labor	**4,282**	3,942
Employee benefits	**69,173**	74,590
Fees	**115,606**	105,891
Supplies	**163,699**	162,955
Utilities	**17,052**	16,857
Medical costs	**10,292**	1,039
Other	**79,980**	80,211
Loss on early extinguishment of debt - Note F	**4,622**	-
Depreciation	**69,437**	78,941
Amortization	**1,742**	2,260
Interest and taxes	**44,392**	43,203
TOTAL EXPENSES AND LOSSES	**998,502**	999,737
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	**$ 56,344**	$ 59,567

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets
(Dollars in Thousands)

Year Ended June 30, 2014

		Mountain States Health Alliance		*Noncontrolling Interests*		*Total*
UNRESTRICTED NET ASSETS:						
Excess of Revenue, Gains and Support over Expenses and Losses	$	48,058	$	8,286	$	56,344
Pension and other defined benefit plan adjustments		194		194		388
Net assets released from restrictions used for the purchase of property, plant and equipment		3,313		-		3,313
Noncontrolling interest in acquired subsidiary		-		914		914
Distributions to noncontrolling interests		-		(461)		(461)
INCREASE IN UNRESTRICTED NET ASSETS		51,565		8,933		60,498
TEMPORARILY RESTRICTED NET ASSETS:						
Restricted grants and contributions		4,693		88		4,781
Net assets released from restrictions		(5,265)		(56)		(5,321)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS		(572)		32		(540)
INCREASE IN TOTAL NET ASSETS		50,993		8,965		59,958
NET ASSETS, BEGINNING OF YEAR		503,317		169,666		672,983
NET ASSETS, END OF YEAR	$	554,310	$	178,631	$	732,941

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets - Continued
(Dollars in Thousands)

Year Ended June 30, 2013

	Mountain States Health Alliance	*Noncontrolling Interests*	*Total*
UNRESTRICTED NET ASSETS:			
Excess of Revenue, Gains and Support over Expenses and Losses	$ 52,692	$ 6,875	$ 59,567
Pension and other defined benefit plan adjustments	(172)	(171)	(343)
Net assets released from restrictions used for the purchase of property, plant and equipment	1,506	-	1,506
Distributions to noncontrolling interests	-	(49)	(49)
INCREASE IN UNRESTRICTED NET ASSETS	54,026	6,655	60,681
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	4,969	21	4,990
Net assets released from restrictions	(3,416)	(19)	(3,435)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	1,553	2	1,555
INCREASE IN TOTAL NET ASSETS	55,579	6,657	62,236
NET ASSETS, BEGINNING OF YEAR	447,738	163,009	610,747
NET ASSETS, END OF YEAR	$ 503,317	$ 169,666	$ 672,983

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ **59,958**	$ 62,236
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for depreciation and amortization	**71,789**	81,786
Provision for bad debts	**122,642**	112,497
Loss on early extinguishment of debt	**4,622**	-
Change in estimated fair value of derivatives	**2,761**	(457)
Equity in net income of joint ventures, net	**(369)**	(636)
Loss (gain) on disposal of assets	**(3,489)**	(1)
Amounts received on interest rate swap settlements	**(5,980)**	(6,661)
Gain on escrow restructuring	**-**	(13,847)
Gain on swap settlement	**-**	(3,020)
Capital Appreciation Bond accretion and other	**2,629**	3,910
Restricted contributions	**(4,781)**	(4,990)
Pension and other defined benefit plan adjustments	**(388)**	343
Increase (decrease) in cash due to change in:		
Patient accounts receivable	**(115,380)**	(129,218)
Other receivables, net	**(11,880)**	(3,192)
Inventories and prepaid expenses	**959**	(2,263)
Trading securities	**(46,451)**	(17,845)
Other assets	**(2,492)**	(1,073)
Accrued interest payable	**(1,058)**	1,181
Accounts payable and accrued expenses	**(6,666)**	(20,263)
Accrued salaries, compensated absences and amounts withheld	**8,006**	8,076
Estimated amounts due to third-party payers, net	**(16,312)**	4,757
Estimated professional liability self-insurance	**199**	(586)
Other long-term liabilities	**16,425**	556
Total adjustments	**14,786**	9,054
NET CASH PROVIDED BY OPERATING ACTIVITIES	**74,744**	71,290
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	**(63,851)**	(105,751)
Purchases of land held for expansion	**(573)**	(5,769)
Acquisitions, net of cash acquired	**(4,256)**	-
Purchases of held-to-maturity securities	**(5,978)**	(8,722)
Net distribution from joint ventures and unconsolidated affiliates	**661**	732
Proceeds from sale of property, plant and equipment	**2,858**	335
NET CASH USED IN INVESTING ACTIVITIES	**(71,139)**	(119,175)

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Cash Flows - Continued
(Dollars in Thousands)

	Year Ended June 30, 2014		Year Ended June 30, 2013
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on long-term debt and capital lease obligations, including deposits to escrow		(38,768)	(75,066)
Payment of acquisition and financing costs		(3,826)	(2,314)
Proceeds from issuance of long-term debt and other financing arrangements		11,916	117,085
Payment on termination of derivative agreements		-	(7,375)
Gain on escrow restructuring		-	13,847
Net amounts received on interest rate swap settlements		5,980	6,661
Restricted contributions received		5,376	4,842
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		(19,322)	57,680
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(15,717)	9,795
CASH AND CASH EQUIVALENTS, beginning of year		74,902	65,107
CASH AND CASH EQUIVALENTS, end of year	$	59,185	$ 74,902
SUPPLEMENTAL INFORMATION AND NON-CASH TRANSACTIONS:			
Cash paid for interest	$	40,546	$ 37,023
Cash paid for federal and state income taxes	$	854	$ 616
Construction related payables in accounts payable and accrued expenses	$	8,604	$ 11,598
Supplemental cash flow information regarding acquisitions - Note A:			
Assets acquired, net of cash	$	12,715	$ -
Liabilities assumed		(8,459)	-
Acquisitions, net of cash acquired	$	4,256	$ -

During the year ended June 30, 2014, the Alliance refinanced previously issued debt of $318,385.

NOTE A--ORGANIZATION AND OPERATIONS

Mountain States Health Alliance (the Alliance) is a tax-exempt entity with operations primarily located in Washington, Sullivan, Unicoi, and Carter counties of Tennessee and Smyth, Wise, Dickenson, Russell and Washington counties of Virginia. The initial funds for the establishment of the Alliance in 1945 were provided by individuals and various institutions.

The primary operations of the Alliance consist of eleven acute and specialty care hospitals, as follows:

- Johnson City Medical Center (JCMC) - licensed for 658 beds
- Indian Path Medical Center (IPMC) - licensed for 261 beds
- Smyth County Community Hospital (SCCH) - licensed for 153 beds
- Norton Community Hospital (NCH) - licensed for 129 beds
- Sycamore Shoals Hospital (SSH) - licensed for 121 beds
- Johnston Memorial Hospital (JMH) - licensed for 116 beds
- Franklin Woods Community Hospital (FWCH) - licensed for 80 beds
- Russell County Medical Center (RCMC) - licensed for 78 beds
- Unicoi County Memorial Hospital (UCMH) - licensed for 48 beds
- Dickenson Community Hospital (DCH) - licensed for 25 beds
- Johnson County Community Hospital (JCCH) - licensed for 2 beds

The Alliance has a 50.1% interest in JMH. JMH is also the sole member of Abingdon Physician Partners (APP), a non-taxable corporation that owns and manages physician practices.

The Alliance has a 50.1% interest in NCH. NCH is also the sole member or shareholder of DCH and Norton Community Physician Services, LLC (NCPS), a taxable corporation that consists of physician practices and a pharmacy and Community Home Care (CHC), a taxable corporation that provides home medical equipment.

The Alliance has an 80% interest in SCCH. SCCH is the sole shareholder of Southwest Community Health Services, Inc. (SWCH), a taxable entity that operates a pharmacy and provides other health services.

The activities and accounts of JMH, NCH and SCCH are included in the accompanying consolidated financial statements.

Effective November 1, 2013, the Alliance acquired substantially all the assets, and certain liabilities, of Unicoi County Memorial Hospital from Unicoi County, Tennessee. To effectuate the acquisition, the Alliance paid approximately $2,500 and committed to construct a new facility within five years.

The accounts and activities of UCMH since acquisition are included in the accompanying consolidated financial statements.

The Alliance is the sole shareholder of Blue Ridge Medical Management Corporation (BRMM), a for-profit entity that owns and manages physician practices and provides other healthcare services to patients in Tennessee and Virginia. BRMM is either the sole shareholder, a significant shareholder, or member of the following consolidated organizations:

Mountain States Physician Group, Inc. (MSPG): A company that contracts with physicians to provide services to BRMM physician practices.

Mountain States Properties, Inc. (MSPI): A company that owns and manages real estate (primarily medical office buildings) and provides rehabilitation and fitness services.

Mediserve Medical Equipment of Kingsport, Inc. (Mediserve): A company that provides durable medical equipment services.

Kingsport Ambulatory Surgery Center (KASC) (d.b.a. Kingsport Day Surgery): A joint venture operating as an outpatient surgery center which performs procedures primarily in otolaryngology, orthopedics, ophthalmology, and general surgery. BRMM has a 43% ownership of KASC and maintains control over KASC through a management agreement. The accounts and activities of KASC are included in the accompanying consolidated financial statements.

Emmaus Community Healthcare LLC (d.b.a. Piney Flats Urgent Care (PFUC)): A for-profit entity that provides urgent care patient services. BRMM has a 75% ownership of PFUC. The accounts and activities of PFUC are included in the accompanying consolidated financial statements.

Mountain States Pharmacy (MSP): A for-profit company that owns and operates retail pharmacies.

East Tennessee Ambulatory Surgery Center (ETASC): Effective January 1, 2014, BRMM acquired a controlling 66.1% ownership in ETASC and recognized approximately $2,244 of goodwill as a result of the transaction. The accounts and activities of ETASC since acquisition are included in the accompanying consolidated financial statements.

The Alliance is the primary beneficiary of the activities of Mountain States Foundation, Inc. (MSF), a not-for-profit foundation formed to coordinate fundraising and development activities of the Alliance. The Alliance is also the beneficiary of the Mountain States Health Alliance Auxiliary (Auxiliary), a not-for-profit organization formed to coordinate volunteer activities of the Alliance.

The activities and accounts of MSF and the Auxiliary are included in the accompanying consolidated financial statements.

The Alliance is a 99.8% shareholder of Integrated Solutions Health Network, LLC (ISHN). The primary function of ISHN is to establish, operate and administer a provider-sponsored health care delivery network. ISHN is the sole shareholder of the following subsidiaries:

CrestPoint Health Insurance Company (CHIC): A for-profit insurance company licensed in the State of Tennessee which provides network access and administration and third-party administrator services. CHIC has a risk-based contract with the Center for Medicare & Medicaid Services (CMS) to provide or arrange for the provision of healthcare services to senior citizens who have Medicare Part A, Medicare Part B and Medicare Part D entitlements.

AnewCare Collaborative (AnewCare): A for-profit accountable care organization which participates in CMS's Medicare Shared Savings Program.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Alliance and its consolidated subsidiaries after elimination of all significant intercompany accounts and transactions.

Noncontrolling Interests in Subsidiaries: The Alliance's accompanying consolidated financial statements include all assets, liabilities, revenues, expenses, and changes in net assets, including amounts attributable to the noncontrolling interests. Noncontrolling interests represent the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to the Alliance. For the years ending June 30, 2014 and 2013, the Alliance attributed an Excess of Revenue, Gains and Support over Expenses and Losses of $8,286 and $6,875, respectively, to the noncontrolling interests in JMH, NCH, SCCH, KASC, PFUC, ETASC and ISHN based on the noncontrolling interests' respective ownership percentage.

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents: Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents designated as assets

limited as to use or uninvested amounts included in investment portfolios are not included as cash and cash equivalents.

Investments: Investments include trading securities and held-to-maturity securities. Within the trading securities portfolio, all debt securities and marketable equity securities with readily determinable fair values are reported at fair value based on quoted market prices. Investments without readily determinable fair values are reported at estimated fair market value pursuant to The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825, *Financial Instruments.* Realized gains and losses are computed using the specific identification method for cost determination. Interest and dividend income is reported net of related investment fees.

Investments which the Alliance has the positive intent and ability to hold to maturity are classified as held-to-maturity and are stated at amortized cost. On June 30, 2013, the Alliance determined that it no longer intended to hold certain of its held-to-maturity investment portfolios to maturity and reclassified investments with an amortized cost of $161,929 into the trading designation. As a result, the Alliance recognized net unrealized gains of approximately $8,255 in the accompanying 2013 Consolidated Statement of Operations. The investments that remain designated as held-to-maturity are limited as to use under a safekeeping agreement or are otherwise unavailable for disposition.

Management annually evaluates investments designated as held-to-maturity and recognizes any "other-than-temporary" losses as deductions from the Performance Indicator (as defined below). Management's evaluation considers the amount of decline in fair value, as well as the time period of any such decline. Management does not believe any investment classified as held-to-maturity is other-than-temporarily impaired at June 30, 2014.

Investments in joint ventures are generally reported under the equity method of accounting, which approximates the Alliance's equity in the underlying net book value, unless the ownership structure requires consolidation. Other assets include investments in joint ventures of $1,364 and $2,057 at June 30, 2014 and 2013, respectively.

Inventories: Inventories, consisting primarily of medical supplies, are stated at the lower of cost or market with cost determined by first-in, first-out method.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost, or if donated, at the fair value at the date of gift. Generally, depreciation is computed by the straight-line method over the estimated useful life of the asset. During 2014, the Alliance changed its estimates of depreciable lives for certain classes of property and equipment. Management evaluated the useful lives of certain classes of equipment and determined that, based on information available to them, the previously assigned lives were not consistent with actual usage of such assets. As a result, management extended the depreciable lives of certain classes of property and equipment to better reflect the actual usage pattern. The impact of this change in estimated useful lives was to decrease depreciation expense in the Consolidated Statement of Operations for the year ended June 30, 2014 by approximately $7,500.

Equipment held under capital lease obligations is amortized under the straight-line method over the shorter of the lease term or estimated useful life. Amortization of buildings and equipment held under capital leases is shown as a part of depreciation expense and accumulated depreciation in the accompanying consolidated financial statements. Renewals and betterments are capitalized and depreciated over their useful life, whereas costs of maintenance and repairs are expensed as incurred.

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The amount capitalized is net of investment earnings on assets limited as to use derived from borrowings designated for capital assets.

The Alliance reviews capital assets for indications of potential impairment when there are changes in circumstances related to a specific asset. If this review indicates that the carrying value of these assets may not be recoverable, the Alliance estimates future cash flows from operations and the eventual disposition of such assets. If the sum of these undiscounted future cash flows is less than the carrying amount of the asset, a write-down to estimated fair value is recorded. The Alliance did not recognize any impairment losses during 2014 and 2013.

Other assets include property held for resale and property held for expansion of $20,793 and $20,220, respectively, at June 30, 2014 and 2013. Property held for resale and property held for expansion primarily represent land contributed to, or purchased by, the Alliance plus costs incurred to develop the infrastructure of such land. Management annually evaluates its investment and records non-temporary declines in value when it is determined the ultimate net realizable value is less than the recorded amount. No such declines were identified in 2014 and 2013.

Goodwill: Goodwill represents the difference between the acquisition cost of assets and the estimated fair value of net tangible and any separately identified intangible assets. Goodwill is evaluated for impairment at least annually. The reporting unit for evaluation of the majority of the Alliance's goodwill is the aggregate acute-care operations. Management performed an evaluation of goodwill for impairment considering qualitative and quantitative factors and does not believe the goodwill associated with any of its reporting units is impaired as of June 30, 2014. Management's estimates utilized in the evaluation contain significant estimates and it is reasonably possible that such estimates could change in the near term.

Deferred Financing, Acquisition Costs and Other Charges: Other assets include deferred financing, acquisition costs and other charges of $25,841 and $28,480 at June 30, 2014 and 2013, respectively.

Deferred financing costs are amortized over the life of the respective bond issue principally using the average bonds outstanding method.

Prior to 2009, the Alliance routinely financed interest rate swap and other derivative transaction issuance costs through modification of future settlement terms. As such, the unamortized issuance costs of these derivatives are included as deferred financing costs in the accompanying Consolidated Balance Sheets and are being amortized over the term of the respective derivative instrument. The unpaid issuance costs are included as a part of the estimated fair value of derivatives in the accompanying Consolidated Balance Sheets. Beginning in 2009, interest rate swap and derivative transaction issuance costs were expensed as incurred.

Derivative Financial Instruments: The Alliance is a party to various interest rate swaps. These financial instruments are not designated as hedges and have been presented at estimated fair market value in the accompanying Consolidated Balance Sheets as either current or long-term liabilities, based upon the remaining term of the instrument. Changes in the estimated fair value of these derivatives are included in the Consolidated Statements of Operations as part of net derivative gain.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Self-insurance liabilities include estimated reserves for reported and unreported professional liability claims and are recorded at the estimated net present value of such claims. Other long-term liabilities include contributions payable and obligations under deferred compensation arrangements, a defined benefit pension plan, a post-retirement employee benefit plan as well as other liabilities which management estimates are not payable within one year.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Alliance's revenue recognition policies related to self-pay and other types of payers emphasize revenue recognition only when collections are reasonably assured.

Patient accounts receivable are reported net of both an estimated allowance for uncollectible accounts and an estimated allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid, TennCare and other third-party payment programs. Current operations include a provision for bad debts in the Consolidated Statements of Operations estimated based upon the age of the patient accounts receivable, historical writeoffs and recoveries and any unusual circumstances (such as local, regional or national economic conditions) which affect the collectibility of receivables, including management's assumptions about conditions it expects to exist and courses of action it expects to take. The primary uncertainty lies with uninsured patient receivables and deductibles, co-payments or other amounts due from individual patients. Additions to the allowance for uncollectible accounts result from the provision for bad debts. Patient accounts written off as uncollectible are deducted from the allowance for uncollectible accounts.

For uninsured patients that do not qualify for charity care, the Alliance recognizes revenue on the basis of discounted rates under the Alliance's self-pay patient policy. Under the policy, a patient who has no insurance and is ineligible for any government assistance program has his or her bill reduced to the amount which generally would be billed to a commercially insured patient. The Alliance's policy does not require collateral or other security for patient accounts receivable. The Alliance routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Charity Care: The Alliance accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Alliance and various guidelines outlined by the Federal Government. These policies define charity as those services for which no payment is anticipated and, as such, charges at established rates are not included in net patient service revenue. Charges forgone, based on established rates, totaled approximately \$109,550 and \$103,084 during 2014 and 2013, respectively. The estimated direct and indirect cost of providing these services totaled approximately \$23,733 and \$24,709 in 2014 and 2013, respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated.

In addition to the charity care services, the Alliance provides a number of other services to benefit the poor for which little or no payment is received. Medicare, Medicaid, TennCare and State indigent programs do not cover the full cost of providing care to beneficiaries of those programs. The Alliance also provides services to the community at large for which it receives little or no payment.

Excess of Revenue, Gains and Support Over Expenses and Losses: The Consolidated Statements of Operations and the Consolidated Statements of Changes in Net Assets includes the caption Excess of Revenue, Gains and Support Over Expenses and Losses (the Performance Indicator). Changes in unrestricted net assets which are excluded from the Performance Indicator, consistent with industry practice, include contributions of long-lived assets or amounts restricted to the purchase of long-lived assets, certain pension and related adjustments, and transactions with noncontrolling interests.

Income Taxes: The Alliance is classified as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been made in the accompanying consolidated financial statements for the Alliance and its tax-exempt subsidiaries. The Alliance's taxable subsidiaries are discussed in Note L. The Alliance has no significant uncertain tax positions at June 30, 2014 and 2013. At June 30, 2014, tax returns for 2010 through 2013 are subject to examination by the Internal Revenue Service.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor or time restriction expires; that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Consolidated Statements of Operations and Changes in Net Assets as net assets released from restrictions. The Alliance's policy is to net contribution and grant revenues against related expenses and present such amounts as a part of other revenue, gains and support in the Consolidated Statements of Operations. Permanently restricted net assets have been restricted by donors to be maintained by the Alliance in perpetuity.

Premium Revenue: Premiums earned include premiums from individuals and Medicare. Medicare revenue includes premiums based on predetermined prepaid rates under Medicare risk contracts. Premiums are recognized in the month in which the members are entitled to health care services. Premiums collected in advance are deferred and recorded as unearned premium revenue. Premium deficiency losses are recognized when it is probable that expected future claim expenses will exceed future premiums on existing contracts. CHIC evaluated the need for a premium deficiency reserve and recorded an estimated reserve of $2,000 at June 30, 2014.

Medicare Shared Savings Program (MSSP): AnewCare, an Accountable Care Organization (ACO), participates in CMS's Medicare Shared Savings Program which is designed to facilitate coordination and cooperation among providers to improve the quality of care for Medicare beneficiaries and reduce unnecessary costs. ACOs participating in the program are assigned beneficiaries by CMS and are entitled to share in the savings if they are able to lower growth in Medicare Parts A and B fee-for-service costs while meeting performance standards on quality of care. The program is based on performance periods, the first of which specific to AnewCare was the period of July 2012 to December 2013. Utilizing statistical data and the methodology employed by CMS, AnewCare estimated and recognized $2,644 of net shared savings through June 30, 2013. Upon completion of the initial performance period, total net shared savings of $4,745 were recognized. For the second performance period, AnewCare has estimated $1,625 of net shared savings as of June 30, 2014. Variability is inherent in the estimation methodology and due to uncertainties in the estimation; it is probable that management's estimates of shared savings, if any, will change by the end of the second performance period, and such change could be significant.

Electronic Health Record (EHR) Incentives: The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified EHR technology. The incentive payments are calculated based upon estimated discharges, charity care and other input data and are recorded upon the Alliance's attainment of program and attestation criteria. The incentive payments are subject to regulatory audit. During the years ending June 30, 2014 and 2013, the Alliance recognized EHR incentive revenues of $18,269 and $22,474, respectively. EHR incentive revenues are included in other revenue, gains and support in the accompanying Consolidated Statements of Operations. The Alliance incurs both capital expenditures and operating expenses in connection with the implementation of its various EHR initiatives. The amount and timing of these expenditures does not directly correlate with the timing of the Alliance's receipt or recognition of the EHR incentive payments.

(Dollars in Thousands)

Medical Costs: The cost of health care services is recognized in the period in which services are provided. Medical costs include an estimate of the cost of services provided to CHIC members by third-party providers, which have been incurred but not reported to CHIC. The estimate for incurred but not reported claims is based on actuarial projections of costs using historical paid claims and industry data. Due to uncertainties in the estimation, it is at least reasonably possible that management's estimates of incurred but not reported claims will change in 2015, although the amount of the change cannot be estimated.

Subsequent Events: The Alliance evaluated all events or transactions that occurred after June 30, 2014, through October 29, 2014, the date the consolidated financial statements were available to be issued. During this period management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2014 consolidated financial statements, other than as discussed in Note Q.

Reclassifications: Certain 2013 amounts have been reclassified to conform with the 2014 presentation in the accompanying consolidated financial statements.

NOTE C--INVESTMENTS

Assets limited as to use are summarized by designation or restriction as follows at June 30:

	2014	*2013*
Designated or restricted:		
Under safekeeping agreements	$ 8,220	$ 8,254
By Board to satisfy regulatory requirements	6,759	2,096
Under bond indenture agreements:		
For debt service and interest payments	55,123	60,823
For capital acquisitions	16,127	36,989
	86,229	108,162
Less: amount required to meet current obligations	(25,029)	(20,386)
	$ 61,200	$ 87,776

(Dollars in Thousands)

Assets limited as to use consist of the following at June 30:

	2014	2013
Cash, cash equivalents and money market funds	$ 54,437	$ 57,190
U.S. Government securities	8,683	11,164
U.S. Agency securities	19,835	30,407
Corporate and foreign bonds	2,354	7,530
Municipal obligations	920	1,871
	$ 86,229	$ 108,162

Trading securities consist of the following at June 30:

	2014	2013
Cash, cash equivalents and money market funds	$ 47,126	$ 9,488
U.S. Government securities	30,721	18,481
U.S. Agency securities	39,084	19,620
Corporate and foreign bonds	96,749	172,350
Municipal obligations	21,409	17,749
Preferred and asset backed securities	3,497	3,491
U.S. equity securities	1,868	10,944
Mutual funds	253,301	186,028
Alternative investments	54,761	37,353
	$ 548,516	$ 475,504

Held-to-maturity securities (other than assets limited as to use) are carried at amortized cost and consist of the following at June 30:

	2014	2013
Cash, cash equivalents and money market funds	$ 220	$ 75
Corporate and foreign bonds	35,131	33,060
Municipal obligations	3,408	4,937
	$ 38,759	$ 38,072

Held-to-maturity securities had gross unrealized gains and losses of $206 and $456, respectively, at June 30, 2014 and $15 and $1,421, respectively, at June 30, 2013. At June 30, 2014, the Alliance held securities within the held-to-maturity portfolio with a fair value and unrealized loss of $13,513 and $456, respectively, which had been at an unrealized loss position for over one year. At June 30, 2013, the Alliance held no securities within the held-to-maturity portfolio which had been in an unrealized loss position for over one year. At June 30, 2014, the contractual maturities of held-to-maturity securities were $17,625 due in one year or less, $5,411 due from one to five years and $15,723 due after five years.

(Dollars in Thousands)

The net investment gain is comprised of the following for the years ending June 30:

	2014	2013
Interest and dividend income, net of fees	$ 12,074	$ 13,881
Net realized gains on the sale of securities	15,311	3,074
Change in net unrealized gains on securities	23,318	24,025
	$ 50,703	$ 40,980

The Alliance is a member of Premier Inc.'s (Premier) group purchasing organization and in connection with this membership, the Alliance held a non-controlling interest in Premier that was accounted for using the cost method of accounting. In October 2013, Premier completed an initial public offering (IPO) and a restructuring of the company. In connection with the restructuring, the Alliance received 860,499 Class B Units and concurrently sold approximately 16% of the units back to Premier. The Alliance recognized a gain of approximately $3,500 on the sale, which is included within other revenue, gains and support in the 2014 Consolidated Statement of Operations.

The Alliance has the ability to convert its remaining Class B units into cash or Premier's Class A common stock over a seven year vesting period. The Alliance recorded an investment in Premier relative to the estimated fair value of the remaining Class B units of approximately $14,713. In addition, as the vesting period is tangential to the Alliance's continued participation in the group purchasing contract, the Alliance recorded a liability equivalent to the estimated fair value of the Class B units, which is included within other long-term liabilities in the 2014 Consolidated Balance Sheet. The liability is being amortized as a vendor incentive over the seven year vesting period. During 2014, the Alliance recognized approximately $2,995 related to the first vesting period (Tranche 1), which is included within other revenue, gains and support in the 2014 Consolidated Statement of Operations.

NOTE D--DERIVATIVE TRANSACTIONS

The Alliance is a party to a number of derivative transactions. These derivatives have not been designated as hedges and are valued at estimated fair value in the accompanying Consolidated Balance Sheets. Management's primary objective in holding such derivatives is to introduce a variable rate component into its fixed rate debt structure. Under the terms of these agreements, changes in the interest rate environment could have a significant effect on the Alliance. Net deferred financing, acquisition costs and other charges include $5,447 and $5,791 at June 30, 2014 and 2013, respectively, related to these swaps.

(Dollars in Thousands)

The Alliance is subject to an enforceable master netting arrangement in the form of an ISDA agreement with Bank of America, Merrill Lynch. Under the terms of this agreement, offsetting of derivative contracts is permitted in the event of default of either party to the agreement. The ISDA agreement requires that the Alliance post additional collateral for the derivatives' fair market value deficits above specified levels. As of June 30, 2014 and 2013, the Alliance was not required to post additional collateral.

The following is a summary of the interest rate swap agreements at June 30, 2014 and 2013:

Notional Amount	*Term*	*Counterparty*	*Payments: Receive*	*Pay*	*Estimated Fair Value 2014*	*2013*
$170,000	4/2006-4/2026	Bank of America, Merrill Lynch	1.07% 4/2013-4/2014 1.14% 5/2014-4/2016	0.00%	$ 3,089	$ 3,895
$95,000	4/2006-4/2026	Bank of America, Merrill Lynch	1.08% 4/2013-4/2014 1.14% 5/2014-4/2016	0.00%	1,748	2,205
$173,030	4/2006-4/2034	Bank of America, Merrill Lynch	1.12% 4/2013-4/2014 1.16% 5/2014-4/2016	0.00%	(1,884)	(710)
$82,055	12/2007-7/2033	Bank of America, Merrill Lynch	67% USD-LIBOR-BBA	0.312% + USD-SIFMA	(9,365)	(9,322)
$50,000	2/2008-7/2038	Bank of America, Merrill Lynch	67% (USD-LIBOR-BBA + 0.15%)	USD-SIFMA	(4,210)	(4,218)
$20,400	7/2007-7/2015	Bank of America, Merrill Lynch	1.05% + USD-SIFMA	4.50%	63	35
					(10,559)	(8,115)
$4,680	7/2010-7/2015	First Tennessee Bank	0.00%	USD-LIBOR-BBA	(44)	(70)
					$ (10,603)	$ (8,185)

The net investment derivative gain is comprised of the following for the years ending June 30:

	2014	*2013*
Settlement income and other	$ 5,980	$ 6,661
Change in estimated fair value	(2,761)	457
	$ 3,219	$ 7,118

These fair values are based on the estimated amount the Alliance would receive, or be required to pay, to enter into equivalent agreements at the valuation date and include an estimated credit value adjustment. Due to the nature of these financial instruments, such estimates of fair value are subject to significant change in the near term.

(Dollars in Thousands)

The Alliance was a party to a total return swap which terminated in 2009. In 2013, the Alliance and counterparty reached a settlement agreement. A gain of approximately $3,020 was recognized on the settlement, which is included within other revenue, gains and support in the accompanying 2013 Consolidated Statement of Operations.

NOTE E--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30:

	2014	*2013*
Land	$ 60,722	$ 60,180
Buildings and leasehold improvements	760,853	718,489
Property and improvements held for leasing	80,824	77,767
Equipment and information technology infrastructure	700,748	664,469
Buildings and equipment held under capital lease	340	671
	1,603,487	1,521,576
Less: Allowances for depreciation and amortization	(757,641)	(704,002)
	845,846	817,574
Construction in progress (Note N)	35,583	66,719
	$ 881,429	$ 884,293

Accumulated depreciation and amortization on property and improvements held for leasing purposes is $27,500 and $25,146 at June 30, 2014 and 2013, respectively. Net interest capitalized was $1,533 and $4,419 for the years ended June 30, 2014 and 2013, respectively.

The Alliance entered into an Amendment and Mutual Release Agreement with a vendor whereby the Alliance waived its right to take any action with respect to prior contracts in exchange for professional services, primarily related to accelerated deployment of information systems. The Alliance recognized approximately $282 and $3,386 in 2014 and 2013, respectively, as additions to property, plant and equipment with an offsetting gain related to the agreed-upon value of such professional services. The Alliance anticipates recognition of additional amounts in future periods.

MOUNTAIN STATES HEALTH ALLIANCE

Notes to Consolidated Financial Statements - Continued
(Dollars in Thousands)

Years Ended June 30, 2014 and 2013

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt and capital lease obligations consist of the following at June 30:

Description	Rate as of June 30, 2014	Outstanding Balance 2014	Outstanding Balance 2013
2013 Hospital Revenue and Refunding Revenue Bonds:			
$61,180 variable rate tax-exempt term bond, due August 2031	1.13%	$ 328,665	$ -
$48,600 variable rate tax-exempt term bond, due August 2032	0.91%		
$13,350 variable rate tax-exempt term bond, due August 2038	1.13%		
$89,620, variable rate tax-exempt term bonds, due August 2042	1.10% - 1.21%		
$16,235, variable rate tax-exempt term bond, due August 2043	0.05%		
$99,680 variable rate taxable term bond due August 2043	0.12%		
2012 Hospital Revenue Bonds:			
(net of unamortized premium of $1,756 and $1,817 at June 30, 2014 and 2013, respectively)			
$55,000 fixed rate tax-exempt term bond, due August 2042	5.00%	56,756	94,697
2011 Hospital Revenue and Refunding and Improvement Bonds:			
$6,445 variable rate taxable term bond, due July 2026	0.12%	104,710	229,919
$76,930 variable rate tax-exempt term bonds, due July 2033	0.07%		
$21,335 variable rate tax-exempt term bond, due July 2033 (JMH)	1.10%		
2010 Hospital Revenue Refunding Bonds:			
(net of unamortized premium of $1,523 and $1,604 at June 30, 2014 and 2013, respectively)			
$41,600 fixed rate tax-exempt serial bonds, through 2020	4.00% to 5.00%	180,993	188,549
$4,355 fixed rate tax-exempt term bond, due July 2023	5.00%		
$14,985 fixed rate tax-exempt term bond, due July 2025	5.38%		
$4,250 fixed rate tax-exempt term bond, due July 2028	5.50%		
$19,230 fixed rate tax-exempt term bond, due July 2030	5.63%		
$95,050 fixed rate tax-exempt term bonds, due July 2038	6.00% - 6.50%		
2009 Hospital Revenue Bonds:			
(net of unamortized discount of $2,267 and $2,359 at June 30, 2014 and 2013, respectively)			
$16,990 fixed rate tax-exempt term bonds, due July 2019	7.25%	119,813	122,256
$21,730 fixed rate tax-exempt term bonds, due July 2029	7.50%		
$83,360 fixed rate tax-exempt term bonds, due July 2038	7.75% - 8.00%		
2008 Hospital Revenue Bond:			
Refunded in 2014		-	65,210
2007B Taxable Hospital Revenue Bonds:			
$19,515 variable rate taxable term bond due July 2019	0.13%	19,515	123,335
2006 Hospital First Mortgage Revenue Bonds:			
(net of unamortized premium of $129 and $135 at June 30, 2014 and 2013, respectively)			
$4,680 fixed rate tax-exempt serial bonds, through 2019	5.00%	167,864	168,485
$7,375 fixed rate tax-exempt term bond, due July 2026	5.25%		
$20,505 fixed rate tax-exempt term bond, due July 2031	5.50%		
$135,175 fixed rate tax-exempt term bond, due July 2036	5.50%		
2001 Hospital First Mortgage Revenue Bond:			
$20,400 fixed rate tax-exempt term bond, due July 2026	4.50%	20,400	21,400

(Dollars in Thousands)

Description	*Rate as of June 30, 2014*	*Outstanding Balance 2014*	*Outstanding Balance 2013*
2000 Hospital First Mortgage Revenue and Refunding Bonds:			
$43,995 fixed rate tax-exempt term bonds, due July 2026	8.50%	81,006	80,485
$37,011 fixed rate tax-exempt Capital Appreciation Bonds, interest and principal due July 2026 through 2030	6.63%		
Capitalized lease obligations secured by equipment			
Various monthly principal and interest payments through December 2016	Various	806	1,240
Master installment payment agreements			
Various payments through May 2014	Unspecified	-	3,823
Notes payable secured by real estate			
Various principal and interest payments through 2017	Various	5,542	5,878
Promissory notes secured by assets of PFUC			
Various monthly principal and interest payments through 2019	3.00% - 3.75%	918	985
Term note			
Monthly principal payments of $60 plus variable rate interest beginning November 2012 through September 2015; remaining principal due October 2015	1.14%	16,883	17,607
Notes payable secured by equipment			
Various monthly principal and interest payments through 2016	Various	790	896
Promissory note secured by assets of KASC			
Monthly principal payments of $7 beginning April 2014 through February 2019; remaining principal due March 2019	3.25%	431	-
Promissory note secured by assets of ETASC			
Monthly principal payments of $8 plus variable rate interest beginning January 2011 through August 2015; remaining principal due September 2015	3.25%	595	-
		1,105,687	1,124,765
Less current portion		(30,618)	(34,417)
		$ 1,075,069	$ 1,090,348

Series 2013 Bonds: In July 2013, the Alliance issued $16,235 (Series 2013A) Hospital Revenue Bonds, $99,680 (Series 2013B) Hospital Refunding Revenue Bonds, $13,350 (Series 2013C) Hospital Refunding Revenue Bonds and $28,310 (Series 2013G) Hospital Revenue Bonds through The Health and Educational Facilities Board of the City of Johnson City, Tennessee and $61,180 (Series 2013D) Hospital Refunding Revenue Bonds, $9,880 (Series 2013E) Hospital Refunding Revenue Bonds, $51,430 (Series 2013F) Hospital Refunding Revenue Bonds and $48,600 (Series 2013H) Hospital Refunding Revenue Bonds through the Industrial Development Authority of Smyth County, Virginia (collectively, the Series 2013 Bonds).

The proceeds from the Series 2013A Bonds were used to finance or refinance capital improvements and equipment acquisitions and to pay issuance costs associated with these Bonds. The proceeds from the remaining Series 2013 Bonds were used to refinance outstanding indebtedness, specifically related to the Series 2007B-2, 2008A, 2008B, 2011C, 2011D, 2012B and 2012C Bonds, and to pay issuance costs associated with these Bonds.

Capital Appreciation Bonds: The Series 2000 Bonds include $14,680 of insured Capital Appreciation Bonds. Such bonds bear a 0% coupon rate and have a yield of 6.625% annually. The Alliance recognizes interest expense and increases the amount of outstanding debt each year based upon this yield. Total principal and interest due at maturity (2026 through 2030) is $93,675.

Other: Outstanding tax-exempt bond obligations that were insured under municipal bond insurance policies were $81,006 and $80,485 at June 30, 2014 and 2013, respectively. Under terms of these policies, the insurer guarantees the Alliance's payment of principal and interest. At June 30, 2014 and 2013, the Alliance held $212,360 and $417,290, respectively, in variable rate demand bonds with letter of credit support and $240,530 and $39,055, respectively, in variable rate bonds held under direct purchase agreements.

Early Redemption: Essentially all of the Alliance's bonds are subject to redemption prior to maturity, including optional, mandatory sinking fund and extraordinary redemption, at various dates and prices as described in the respective Bond indentures and other documents.

Derecognized Bonds: In previous years, the advance refunded previously issued debt by placing required funds in irrevocable trusts in order to satisfy remaining scheduled principal and interest payments of the outstanding debt. Management, upon advice of legal counsel, believes the amounts deposited in such irrevocable trust accounts have contractually relieved the Alliance of any future obligations with respect to this debt, and the debt is not a considered liability of the Alliance. Therefore, such debt has been derecognized. Debt outstanding and not recognized in the Consolidated Balance Sheet at June 30, 2014 due to previous advance refundings totaled approximately $196,290.

The assets placed in the irrevocable trust accounts are also not recognized as assets of the Alliance. These assets consist primarily of various investments, as permitted by bond indentures and other documents, including United States Treasury obligations, an investment contract with MBIA Insurance Corporation (MBIA) in the original amount of $54,300, as well as the Series 2000C and 2000D Bonds which were purchased with the proceeds of the 2000A and 2000B Bonds specifically for the purpose of utilizing the Series 2000C and 2000D Bonds in the irrevocable trust. Therefore, certain of the assets held in the irrevocable trust accounts have future income streams contingent upon payments by the Alliance.

The Alliance instructed the trustee of the advance refunded 1998C Bonds to liquidate certain investments held in the related irrevocable trust account and to redeem a portion of the 1998C Bonds with the proceeds from the liquidation. The fair value of the liquidated assets exceeded the payment necessary to redeem the 1998C Bonds and the excess was paid to the Alliance. As a result of this transaction, the Alliance recognized a net gain of $13,847 which is included in other revenue, gains and support in the accompanying 2013 Consolidated Statements of Operations.

(Dollars in Thousands)

Financing Arrangements: The Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding bonds indebtedness. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. The JMH Series 2011 Hospital Refunding and Improvement Revenue Bonds are secured by pledged revenues of JMH, as defined in the Credit Agreement.

Certain members of the Alliance and JMH are each members of separate Obligated Groups. The bond indentures, master trust indentures, letter of credit agreements and loan agreements related to the various bond issues and notes payable contain covenants with which the respective Obligated Groups must comply. These requirements include maintenance of certain financial and liquidity ratios, deposits to trustee funds, permitted indebtedness, use of facilities and disposals of property. These covenants also require that failure to meet certain debt service coverage tests will require the deposit of all daily cash receipts of the Alliance into a trust fund. Management has represented the Alliance and JMH are in compliance with all such covenants at June 30, 2014.

During 2014, the Alliance recognized a $4,622 loss on early extinguishment of debt representing the write off of previously deferred and unamortized financing costs generally related to the refunded portion of the Series 2012 Bonds, Series 2008 Bonds, Series 2011 Bonds and Series 2007B Bonds.

The scheduled maturities and mandatory sinking fund payments of the long-term debt and capital lease obligations (excluding interest), exclusive of net unamortized original issue discount and premium, at June 30, 2014 are as follows:

Year Ending June 30,		
2015		$ 30,618
2016		42,329
2017		27,647
2018		24,793
2019		25,924
Thereafter		953,235
		1,104,546
	Net premium	1,141
		$ 1,105,687

NOTE G–SELF-INSURANCE PROGRAMS

The Alliance is substantially self-insured for professional and general liability claims and related expenses. The Alliance maintains a $25,000 umbrella liability policy that attaches over the self-insurance limits of $10,000 per claim and a $15,000 annual aggregate retention. The Alliance's insurance program also provides professional liability coverage for certain affiliates and joint ventures.

(Dollars in Thousands)

The Alliance is also substantially self-insured for workers' compensation claims in the State of Tennessee and has established estimated liabilities for both reported and unreported claims. The Alliance maintains a stop-loss policy that attaches over the self-insurance limits of $1,000 per occurrence and $1,000 annual aggregate retention. In the State of Virginia, the Alliance is not self-insured and maintains workers' compensation insurance through commercial carriers.

At June 30, 2014, the Alliance is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through June 30, 2014 that may result in the assertion of additional claims, and other unreported claims may be asserted arising from services provided in the past. Alliance management has estimated and accrued for the cost of these unreported claims based on historical data and actuarial projections. The estimated net present value of malpractice and workers' compensation claims, both reported and unreported, as of June 30, 2014 and 2013 was $13,220 and $12,348, respectively. The discount rate utilized was 5% at June 30, 2014 and 2013.

Additionally, the Alliance is self-insured for employee health claims and recognizes expense each year based upon actual claims paid and an estimate of claims incurred but not yet paid, including a catastrophic claims reserve based on historical claims in excess of $75. Such amount is included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

NOTE H--NET PATIENT SERVICE REVENUE

Patient service revenue, net of contractual allowances and discounts is composed of the following for the years ended June 30:

	2014	*2013*
Third-party payers	$ 937,150	$ 946,979
Patients	113,276	98,266
Patient service revenue	$ 1,050,426	$ 1,045,245

Patient deductibles and copayments under third-party payment programs are included within the patient amounts above.

The Alliance also provides services to uninsured and underinsured patients that do not qualify for financial assistance. Based on historical experience, a significant portion of uninsured and underinsured patients are unable or unwilling to pay the portion of their bill for which they are financially responsible and a significant provision for bad debts is recorded in the period the services are provided.

The Alliance's allowance for doubtful accounts totaled $47,853 and $49,449 at June 30, 2014 and 2013, respectively. The allowance for doubtful accounts remained consistent at 23% of patient accounts receivable, net of contractual allowances, at June 30, 2014 and 2013. Management's estimate of the allowance for doubtful accounts is a significant estimate subject to change in the near term. The provision for bad debts associated with the Alliance's ancillary service lines are not significant.

NOTE I--THIRD-PARTY REIMBURSEMENT

The Alliance renders services to patients under contractual arrangements with Medicare, Medicaid, TennCare and various other commercial payers. The Medicare program pays for inpatient services on a prospective basis. Payments are based upon diagnosis related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. The Alliance also receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid and other low income patients. Most Medicare outpatient services are reimbursed on a prospectively determined payment methodology. The Medicare program also reimburses certain other services on the basis of reasonable cost, subject to various prescribed limitations and reductions.

Reimbursement under the State of Tennessee's Medicaid waiver program (TennCare) for inpatient and outpatient services is administered by various managed care organizations (MCOs) and is based on diagnosis related group assignments, a negotiated per diem or fee schedule basis. The Alliance also receives additional supplemental payments from the State of Tennessee through the essential access program. These payments recognized totaled $6,225 and $8,455 for the years ended June 30, 2014 and 2013, respectively. Additionally, during the year ending June 30, 2014, the Alliance recorded approximately $4,097 related to additional supplemental funding through the State of Tennessee as management believes such funding is applicable to 2014. Such payments are not guaranteed in future periods.

The Virginia Medicaid program reimbursement for inpatient hospital services is based on a prospective payment system using both a per case and per diem methodology. Additional payments are made for the allowable costs of capital. Payments for outpatient services were based on Medicare cost reimbursement principles and settled through the filing of an annual Medicaid cost report through December 31, 2013. Beginning January 1, 2014, payments for outpatient services are transitioning from cost-based reimbursement principles to a prospective payment system. Full implementation of this transition is expected to take place over multiple years.

Amounts earned under the contractual agreements with the Medicare and Medicaid programs are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. 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 impact of final settlements of cost reports or changes in estimates increased net patient service revenue by $6,201 and $1,328 in 2014 and 2013, respectively.

Activity with respect to audits and reviews of the governmental programs in the healthcare industry has increased and is expected to increase in the future. No additional specific reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts, if any. Management believes that any adjustments from these increased audits and reviews will not have a material adverse impact on the consolidated financial statements. However, due to uncertainties in the estimation, it is at least reasonably possible that management's estimate will change in 2015, although the amount of any change cannot be estimated.

During 2014, the Alliance recognized $5,600 of estimated receivables from amounts previously recouped as a result of audits and reviews of governmental programs. Such amounts are based on the Alliance's historical experience with appeals of such recoupments. However, such amounts are subject to significant changes in the near term.

Participation in the Medicare program subjects the Alliance to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the program. Management believes that adequate provision has been made for any adjustments, fines or penalties which may result from final settlements or violations of other rules or regulations. Management has represented that the Alliance is in substantial compliance with these rules and regulations as of June 30, 2014.

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

NOTE J--EMPLOYEE BENEFIT PLANS

The Alliance sponsors a retirement plan (the Plan) which covers substantially all employees. The Plan is a defined contribution plan which consists principally of employer-funded contributions. During 2014 and 2013, the Alliance made contributions to the Plan under a stratified system, whereby the Alliance's contribution percentage is based on each employee's years of service. Employees of certain other subsidiaries are covered by other plans, although such plans are not significant. The total expense related to defined contribution plans for the years ended June 30, 2014 and 2013 was $13,850 and $16,121, respectively.

(Dollars in Thousands)

NCH maintains a defined benefit pension plan and a post-retirement employee benefit plan. The accrued unfunded pension liability was $2,086 and $3,028, and the accrued unfunded post-retirement liability was $5,857 and $4,943 at June 30, 2014 and 2013, respectively.

The Alliance sponsors a secured executive benefit program (SEBP) for certain key executives. Contributions to the plan by the Alliance are based on an annual amount of funding necessary to produce a target benefit for the participants at their retirement date, although the Alliance does not guarantee any level of benefit will be achieved. The Alliance contributed $511 and $1,020 to the plan during 2014 and 2013, respectively. Other assets at June 30, 2014 and 2013 include $11,302 and $10,721, respectively, related to the Alliance's portion of the benefits which are recoverable upon the death of the participant. In addition, the Alliance sponsors a Section 457(f) plan for certain key executives. The Alliance contributed $231 and $294 to the Section 457(f) plan during 2014 and 2013, respectively.

NOTE K--CONCENTRATION OF RISK

The Alliance has locations primarily in upper East Tennessee and Southwest Virginia which is considered a geographic concentration. The Alliance grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. Net patient service revenue from Washington County, Tennessee operations were approximately 52% and 51% of total net patient service revenue in 2014 and 2013, respectively.

The mix of receivables from patients and third-party payers based on charges at established rates is as follows as of June 30. The patient responsibility related to charges for which the third-party has not yet paid is included within the third-party payer categories.

	2014	*2013*
Medicare	39%	38%
Tenncare/Medicaid	18%	16%
Commercial	28%	28%
Other third-party payers	8%	9%
Patients	7%	9%
	100%	100%

Approximately 88% of the consolidated total revenue, gains and support were related to the provision of healthcare services during 2014 and 2013. Admitting physicians are primarily practitioners in the regional area.

Employees at two of the Alliance's Virginia hospitals are covered under a collective bargaining agreement which extends through February 2017.

The Hospital maintains bank accounts at various financial institutions covered by the Federal Deposit Insurance Corporation (FDIC). At times throughout the year, the Alliance may maintain bank account balances in excess of the FDIC insured limit. Management believes the credit risk associated with these deposits is not significant.

The Alliance routinely invests in investment vehicles as listed in Note C. The Alliance's investment portfolio is managed by outside investment management companies. Investments in corporate and foreign bonds, municipal obligations, money market funds, equities and other vehicles that are held by safekeeping agents are not insured or guaranteed by the U.S. government.

NOTE L--INCOME TAXES

BRMM and its subsidiaries file a consolidated federal tax return and separate state tax returns. As of June 30, 2014 and 2013, BRMM and its subsidiaries had net operating loss carryforwards for consolidated federal purposes of $27,085 and $33,620, respectively, related to operating loss carryforwards, which expire through 2031. At June 30, 2014 and 2013, BRMM had state net operating loss carryforwards of $74,191 and $71,637, respectively, which expire through 2028. The net operating loss carryforwards may be offset against future taxable income to the extent permitted by the Internal Revenue Code and Tennessee Code Annotated.

At June 30, 2014 and 2013, SWCH had federal and state net operating loss carryforwards of $5,884 and $5,906, respectively, which expire through 2033. The net operating loss carryforwards may be off-set against future taxable income to the extent permitted by the Internal Revenue Code and tax codes of the Commonwealth of Virginia.

Net deferred tax assets related to these carryforwards and other deferred tax assets have been substantially offset through valuation allowances equal to these amounts. Income taxes paid relate primarily to state taxes for certain subsidiaries and federal alternative minimum tax.

NOTE M--RELATED PARTY TRANSACTIONS

The Alliance enters into transactions with entities affiliated with certain members of the Board of Directors including transactions to construct Alliance facilities and provide professional services to the Alliance. Board members refrain from discussion and abstain from voting on transactions with entities with which they are related.

NOTE N--OTHER COMMITMENTS AND CONTINGENCIES

Construction in Progress: Construction in progress at June 30, 2014 represents costs incurred related to various hospital and medical office building facility renovations and additions and information technology infrastructure. The Alliance has outstanding contracts and other commitments related to the completion of these projects, and the cost to complete these projects is estimated to be approximately $48,844 at June 30, 2014. The Alliance does not expect any significant costs to be incurred for infrastructure improvements to assets held for resale.

Physician Contracts: BRMM employs physicians to provide services to BRMM's physician practices through employment agreements which provide annual compensation, plus incentives based upon specified productivity and performance (quality measures). These contracts have various terms.

In addition, the Alliance has entered into contractual relationships with non-employed physicians to provide services in Upper East Tennessee and Southwest Virginia. These contracts guarantee certain base payments and allowable expenses and have terms of varying lengths. Amounts drawn and outstanding under each agreement are treated as a loan bearing interest at various rates and are subject to repayment over a specified period. The physician notes may also be amortized by virtue of the physician's continued practice in the specified community during the repayment period. A net receivable of $853 and $884 related to these agreements is included in the accompanying Consolidated Balance Sheets at June 30, 2014 and 2013, respectively.

Employee Scholarships: The Alliance offers scholarships to certain individuals which require that the recipients return to the Alliance to work for a specified period of time after they complete their degree. Amounts due are then forgiven over a specific period of time as provided in the individual contracts. If the recipient does not return and work the required period of time, the funds disbursed on their behalf become due immediately and interest is charged until the funds are repaid. Other receivables at June 30, 2014 and 2013 include $8,685 and $9,021, respectively, related to students in school, graduates working at the Alliance and amounts due from others who are no longer in the scholarship program, net of an estimated allowance.

Operating Leases and Maintenance Contracts: Total lease expense for the years ended June 30, 2014 and 2013 was $7,901 and $8,739, respectively. Future minimum lease payments for each of the next five years and in the aggregate for the Alliance's noncancellable operating leases with remaining lease terms in excess of one year are as follows:

(Dollars in Thousands)

Year Ending June 30,		
2015	$	6,996
2016		6,389
2017		4,084
2018		3,292
2019		3,025
Thereafter		12,500
	$	36,286

Other: The Alliance is a party to various transactions and agreements in the normal course of business, which include purchase and re-purchase agreements, put arrangements and other commitments, which may bind the Alliance to undertake additional transactions or activities in the future.

Healthcare Industry: Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

NOTE O--FAIR VALUE MEASUREMENT

The fair value of financial instruments has been estimated by the Alliance using available market information as of June 30, 2014 and 2013, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Alliance could realize in a current market exchange. The carrying value of substantially all financial instruments approximates fair value due to the nature or term of the instruments, except as described below.

Held-to-Maturity Securities: The estimated fair value of the Alliance's held-to-maturity securities at June 30, 2014 and 2013, is approximately $38,508 and $36,666, respectively, and would be classified in level 2 of the fair value hierarchy (described below). The fair value is based on prices provided by the Alliance's investment managers and its custodian bank, which use a variety of pricing sources to determine market valuations.

Investment in Joint Ventures: It is not practical to estimate the fair market value of the investments in joint ventures.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Estimates of reported and unreported professional liability claims, pension and post-retirement liabilities are discounted to approximate their estimated fair value. It is not practical to estimate the fair market value of other long-term liabilities.

Long-Term Debt: The estimated fair value of the Alliance's long-term debt at June 30, 2014 and 2013, is approximately $1,172,357 and $1,168,846, respectively, and would be classified in level 2 in the fair value hierarchy. The fair value of long-term debt is estimated based upon quotes obtained from brokers for bonds and discounted future cash flows using current market rates for other debt. For long-term debt with variable interest rates, the carrying value approximates fair value.

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation 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 based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The Alliance's Level 2 investments are valued primarily using the market valuation approach.

- Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Alliance's own assumptions.

In instances where the determination of the fair value hierarchy 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 Alliance'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.

The following table sets forth, by level within the fair value hierarchy, the financial instruments measured at fair value as of June 30, 2014 and 2013:

(Dollars in Thousands)

	Total	Level 1	Level 2	Level 3
June 30, 2014				
Cash, cash equivalents and money market funds	$ 95,459	$ 95,459	$ -	$ -
U.S. Government securities	35,569	35,569	-	-
U.S. Agency securities	54,905	54,905	-	-
Corporate and foreign bonds	99,103	-	99,103	-
Municipal obligations	21,409	-	21,409	-
Preferred and asset backed securities	3,497	-	3,497	-
U.S. equity securities	1,868	1,868	-	-
Mutual funds	253,301	177,067	76,234	-
Alternative investments	69,474	-	54,761	14,713
Total assets	$ 634,585	$ 364,868	$ 255,004	$ 14,713
Derivative agreements	$ (10,603)	$ -	$ -	$ (10,603)
June 30, 2013				
Cash, cash equivalents and money market funds	$ 66,075	$ 66,075	$ -	$ -
U.S. Government securities	25,905	25,905	-	-
U.S. Agency securities	45,997	45,997	-	-
Corporate and foreign bonds	179,880	-	179,880	-
Municipal obligations	17,749	-	17,749	-
Preferred and asset backed securities	3,491	-	3,491	-
U.S. equity securities	10,944	10,944	-	-
Mutual funds	186,028	125,479	60,548	-
Alternative investments	37,353	-	37,353	-
Total assets	$ 573,422	$ 274,400	$ 299,021	$ -
Derivative agreements	$ (8,185)	$ -	$ -	$ (8,185)

Fair values for the Alliance's fixed maturity securities are based on prices provided by the Alliance's investment managers and its custodian bank, which use a variety of pricing sources to determine market valuations. Fair values of equity securities have been determined by the Alliance from market quotations.

Alternative Investments: The Alliance generally uses net asset value per unit as provided by external investment managers without further adjustment as the practical expedient estimate of the fair value of its alternative investment in a real estate fund, consistent with the provisions of FASB ASC 820, *Fair Value Measurement*. Accordingly, such values may differ from values that would have been used had an active market for the investments existed. The real estate fund invests primarily in U.S. commercial real estate. The Alliance may request redemption of all or a portion of its interests as of the end of a calendar quarter by delivering written notice to the fund managers at least 60 days prior to the end of the quarter. Such redemptions are subject to the capital requirements of the fund manager.

(Dollars in Thousands)

The Alliance's investment in Premier's Class B units do not have a readily determinable fair value and have been reported at estimated fair market value. The significant unobservable inputs primarily relate to management's estimate of the discount for lack of marketability of 12%. Accordingly, such value may differ from values that would have been used had an active market for the investment existed and as such it has been classified in Level 3 of the fair value hierarchy.

Derivative Agreements: The valuation of the Alliance's derivative agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses certain observable market-based inputs. The fair values of interest rate agreements are determined by netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates and the underlying notional amount. The Alliance also incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty's nonperformance or credit risk in the fair value measurements. The CVA on the Alliance's interest rate swap agreements at June 30, 2014 and 2013 resulted in a decrease in the fair value of the related liability of \$4,584 and \$3,080, respectively.

A certain portion of the inputs used to value its interest rate swap agreements, including the forward interest rate curves and market perceptions of the Alliance's credit risk used in the CVAs, are unobservable inputs available to a market participant. As a result, the Alliance has determined that the interest rate swap valuations are classified in Level 3 of the fair value hierarchy.

The following tables provide a summary of changes in the fair value of the Alliance's Level 3 financial assets and liabilities during the fiscal years ended June 30, 2014 and 2013:

	Alternative Investment	*Derivatives, Net*
July 1, 2012	$ -	$ (19,381)
Total unrealized/realized gains in the Performance Indicator, net	-	457
Net investment income	-	399
Settlements	-	10,340
June 30, 2013	-	(8,185)
Total unrealized/realized gains in the Performance Indicator, net	-	(2,761)
Net investment income	-	343
Additions	14,713	-
June 30, 2014	$ 14,713	$ (10,603)

NOTE P--OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

The Alliance does not present expense information by functional classification because its resources and activities are primarily related to providing healthcare services. Further, since the Alliance receives substantially all of its resources from providing healthcare services in a manner similar to business enterprises, other indicators contained in these consolidated financial statements are considered important in evaluating how well management has discharged their stewardship responsibilities.

NOTE Q--SUBSEQUENT EVENTS

The Alliance signed an agreement to form a joint venture with HealthSouth Corporation to own and operate James H. & Cecile C. Quillen Rehabilitation Hospital (Quillen). At closing, HealthSouth will obtain a 50.1% ownership of the free-standing 60-bed inpatient rehabilitation hospital. Quillen will be managed by HealthSouth Corporation under a long-term management contract. The formation of the joint venture is subject to customary closing conditions including regulatory approvals. Management anticipates closing the joint venture transaction by the end of the calendar year 2014.

Supplemental Schedules

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets
(Smyth County Community Hospital and Subsidiary and Norton Community Hospital and Subsidiaries)
(Dollars in Thousands)

June 30, 2014

	Smyth County Community Hospital and Subsidiary	*Norton Community Hospital and Subsidiaries*
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,465	$ 5,581
Patient accounts receivable, less estimated allowances for uncollectible accounts	7,099	10,583
Other receivables, net	1,235	1,706
Inventories and prepaid expenses	1,035	1,882
Estimated amounts due from third-party payers, net	-	113
Receivables from affiliates, net	560	319
TOTAL CURRENT ASSETS	12,394	20,184
INVESTMENTS, less amounts required to meet current obligations	21,335	30,089
PROPERTY, PLANT AND EQUIPMENT, net	71,083	45,438
OTHER ASSETS		
Net deferred financing, acquisition costs and other charges	148	218
Other assets	741	-
TOTAL OTHER ASSETS	889	218
	$ 105,701	$ 95,929

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets - Continued
(Smyth County Community Hospital and Subsidiary and Norton Community Hospital and Subsidiaries)
(Dollars in Thousands)

June 30, 2014

	Smyth County Community Hospital and Subsidiary	***Norton Community Hospital and Subsidiaries***
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	$ 16	$ 15
Current portion of long-term debt and capital lease obligations	1,102	147
Accounts payable and accrued expenses	2,125	4,007
Accrued salaries, compensated absences and amounts withheld	2,171	4,503
Estimated amounts due to third-party payers, net	35	-
TOTAL CURRENT LIABILITIES	5,449	8,672
OTHER LIABILITIES		
Long-term debt and capital lease obligations, less current portion	15,966	21,096
Estimated professional liability self-insurance	395	567
Other long-term liabilities	943	7,646
TOTAL LIABILITIES	22,753	37,981
NET ASSETS		
Unrestricted net assets	82,938	57,786
Temporarily restricted net assets	10	162
TOTAL NET ASSETS	82,948	57,948
	$ 105,701	$ 95,929

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations and Changes in Net Assets (Smyth County Community Hospital and Subsidiary and Norton Community Hospital and Subsidiaries) (Dollars in Thousands)

Year Ended June 30, 2014

	Smyth County Community Hospital and Subsidiary	*Norton Community Hospital and Subsidiaries*
UNRESTRICTED NET ASSETS:		
Revenue, gains and support:		
Patient service revenue, net of contractual allowances and discounts	$ 45,406	$ 77,273
Provision for bad debts	(4,138)	(9,611)
Net patient service revenue	41,268	67,662
Net investment gain	2,148	1,904
Other revenue, gains and support	2,975	5,629
TOTAL REVENUE, GAINS AND SUPPORT	46,391	75,195
Expenses and losses:		
Salaries and wages	17,620	23,622
Physician salaries and wages	261	5,906
Contract labor	112	533
Employee benefits	3,611	8,554
Fees	9,284	9,059
Supplies	5,300	8,319
Utilities	976	1,301
Other	4,740	9,256
Loss on early extinguishment of debt	177	321
Depreciation	4,276	4,420
Amortization	27	8
Interest and taxes	162	349
TOTAL EXPENSES AND LOSSES	46,546	71,648
EXCESS (DEFICIT) OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	(155)	3,547
Pension and postretirement liability adjustments	-	388
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(155)	3,935

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations and Changes in Net Assets - Continued
(Smyth County Community Hospital and Subsidiary and Norton Community Hospital and Subsidiaries)
(Dollars in Thousands)

Year Ended June 30, 2014

	Smyth County Community Hospital and Subsidiary	*Norton Community Hospital and Subsidiaries*
TEMPORARILY RESTRICTED NET ASSETS:		
Restricted grants and contributions	17	97
Net assets released from restrictions	(43)	(26)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(26)	71
INCREASE (DECREASE) IN TOTAL NET ASSETS	(181)	4,006
NET ASSETS, BEGINNING OF YEAR	83,129	53,942
NET ASSETS, END OF YEAR	$ 82,948	$ 57,948

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet
(Obligated Group and Other Entities)
(Dollars in Thousands)

June 30, 2014

	Obligated Group	*Other Entities*	*Eliminations*	*Total*
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 27,419	$ 31,766	$ -	$ 59,185
Current portion of investments	25,029	-	-	25,029
Patient accounts receivable, less estimated allowance for uncollectible accounts	134,586	26,732	-	161,318
Other receivables, net	29,894	15,608	-	45,502
Inventories and prepaid expenses	22,856	7,982	-	30,838
TOTAL CURRENT ASSETS	239,784	82,088	-	321,872
INVESTMENTS, less amounts required to meet current obligations	449,295	199,180	-	648,475
EQUITY IN AFFILIATES	336,532	-	(336,532)	-
PROPERTY, PLANT AND EQUIPMENT, net	639,370	242,059	-	881,429
OTHER ASSETS				
Goodwill	152,283	4,330	-	156,613
Net deferred financing, acquisition costs and other charges	24,506	1,335	-	25,841
Other assets	39,995	8,355	-	48,350
TOTAL OTHER ASSETS	216,784	14,020	-	230,804
	$ 1,881,765	$ 537,347	$ (336,532)	$ 2,082,580

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet – Continued
(Obligated Group and Other Entities)
(Dollars in Thousands)

June 30, 2014

	Obligated Group	*Other Entities*	*Eliminations*	*Total*
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accrued interest payable	$ 18,613	$ 35	$ -	$ 18,648
Current portion of long-term debt and capital lease obligations	27,311	3,307	-	30,618
Accounts payable and accrued expenses	71,739	15,387	-	87,126
Accrued salaries, compensated absences and amounts withheld	54,710	17,471	-	72,181
Payables to (receivables from) affiliates, net	13,760	(13,760)	-	-
Estimated amounts due to third-party payers, net	10,068	395	-	10,463
TOTAL CURRENT LIABILITIES	196,201	22,835	-	219,036
OTHER LIABILITIES				
Long-term debt and capital lease obligations, less current portion	1,037,407	37,662	-	1,075,069
Estimated fair value of derivatives, net	10,666	(63)	-	10,603
Estimated professional liability self-insurance	7,747	1,210	-	8,957
Other long-term liabilities	33,495	2,479	-	35,974
TOTAL LIABILITIES	1,285,516	64,123	-	1,349,639
NET ASSETS				
Unrestricted net assets				
Mountain States Health Alliance	541,979	329,803	(329,803)	541,979
Noncontrolling interests in subsidiaries	41,855	131,402	5,290	178,547
TOTAL UNRESTRICTED NET ASSETS	583,834	461,205	(324,513)	720,526
Temporarily restricted net assets				
Mountain States Health Alliance	12,204	11,887	(11,887)	12,204
Noncontrolling interests in subsidiaries	84	5	(5)	84
TOTAL TEMPORARILY RESTRICTED NET ASSETS	12,288	11,892	(11,892)	12,288
Permanently restricted net assets	127	127	(127)	127
TOTAL NET ASSETS	596,249	473,224	(336,532)	732,941
	$ 1,881,765	$ 537,347	$ (336,532)	$ 2,082,580

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Operations (Obligated Group and Other Entities) (Dollars in Thousands)

Year Ended June 30, 2014

	Obligated Group	Other Entities	Eliminations	Total
Revenue, gains and support:				
Patient service revenue, net of contractual allowances and discounts	$ 873,422	$ 178,164	$ (1,160)	$ 1,050,426
Provision for bad debts	(103,913)	(18,729)	-	(122,642)
Net patient service revenue	769,509	159,435	(1,160)	927,784
Premium revenue	-	10,683	-	10,683
Net investment gain	34,846	15,889	(32)	50,703
Net derivative gain	2,497	722	-	3,219
Other revenue, gains and support	71,579	98,296	(107,418)	62,457
Equity in net gain of affiliates	1,510	11,182	(12,692)	-
TOTAL REVENUE, GAINS AND SUPPORT	879,941	296,207	(121,302)	1,054,846
Expenses:				
Salaries and wages	283,993	62,198	(5,602)	340,589
Physician salaries and wages	57,829	74,738	(54,931)	77,636
Contract labor	2,833	1,692	(243)	4,282
Employee benefits	59,268	15,483	(5,578)	69,173
Fees	116,527	33,896	(34,817)	115,606
Supplies	138,127	25,731	(159)	163,699
Utilities	13,087	3,969	(4)	17,052
Medical Costs	-	10,292	-	10,292
Other	56,890	29,828	(6,738)	79,980
Loss on early extinguishment of debt	4,622	-	-	4,622
Depreciation	52,544	16,893	-	69,437
Amortization	1,691	51	-	1,742
Interest and taxes	42,734	1,680	(22)	44,392
TOTAL EXPENSES	830,145	276,451	(108,094)	998,502
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ 49,796	$ 19,756	$ (13,208)	$ 56,344

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Changes in Net Assets (Obligated Group and Other Entities) (Dollars in Thousands)

Year Ended June 30, 2014

	Obligated Group		*Total*	*Other Entities*		*Total*		
	Mountain States Health Alliance	*Noncontrolling Interests*	*Obligated Group*	*Mountain States Health Alliance*	*Noncontrolling Interests*	*Other Entities*	*Eliminations*	*Total*
UNRESTRICTED NET ASSETS:								
Excess of Revenue, Gains and Support over Expenses and Losses	$ 48,057	$ 1,739	$ 49,796	$ 14,412	$ 5,344	$ 19,756	$ (13,208)	$ 56,344
Pension and other defined benefit plan adjustments	194	194	388	(10)	(9)	(19)	19	388
Net assets released from restrictions used for the purchase of property, plant and equipment	3,313	-	3,313	3,313	-	3,313	(3,313)	3,313
Noncontrolling interest in acquired subsidiary	-	-	-	-	914	914	-	914
Distributions to noncontrolling interests	-	-	-	-	(461)	(461)	-	(461)
Net asset transfers	-	-	-	882	1,669	2,551	(2,551)	-
INCREASE IN UNRESTRICTED NET ASSETS	51,564	1,933	53,497	18,597	7,457	26,054	(19,053)	60,498
TEMPORARILY RESTRICTED NET ASSETS:								
Restricted grants and contributions	4,693	52	4,745	4,047	42	4,089	(4,053)	4,781
Net assets released from restrictions	(5,264)	(22)	(5,286)	(4,691)	(38)	(4,729)	4,694	(5,321)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(571)	30	(541)	(644)	4	(640)	641	(540)
INCREASE IN TOTAL NET ASSETS	50,993	1,963	52,956	17,953	7,461	25,414	(18,412)	59,958
NET ASSETS, BEGINNING OF YEAR	503,317	39,976	543,293	323,864	123,946	447,810	(318,120)	672,983
NET ASSETS, END OF YEAR	$ 554,310	$ 41,939	$ 596,249	$ 341,817	$ 131,407	$ 473,224	$ (336,532)	$ 732,941

NOTE A--OBLIGATED GROUP MEMBERS

As described in Note F to the consolidated financial statements, the Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding bonds. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. The members pledged pursuant to the Amended and Restated Master Trust Indenture between Mountain States Health Alliance and the Bank of New York Mellon Trust Company, NA as Master Trustee include Johnson City Medical Center Hospital, Indian Path Medical Center, Franklin Woods Community Hospital, Sycamore Shoals Hospital, Johnson County Community Hospital, Russell County Medical Center, Unicoi County Memorial Hospital, Norton Community Hospital (hospital only), Smyth County Community Hospital (hospital only) and Blue Ridge Medical Management Corporation (parent company only), collectively defined as the Obligated Group (Obligated Group).

The supplemental consolidating schedules include the accounts of the members of the Obligated Group after elimination of all significant intergroup accounts and transactions. Certain other subsidiaries of the Alliance are not pledged to secure the payment of the outstanding bonds as they are not part of the Obligated Group. These affiliates have been accounted for within the Obligated Group based upon the Alliance's original and subsequent investments, as adjusted for the Alliance's pro rata share of income or losses and any distributions, and are included as a part of equity in affiliates in the supplemental consolidating balance sheet.

Exhibit 11.4

Attachment G

Mountain States EMMA - Annual Disclosures for 2010 to 2015 and Material Event Disclosures

Mountain States Health Alliance

Fiscal Year 2010
(ending June 30, 2010)

Annual Financial & Operating Data

Mountain States Health Alliance
Patient Origin
FY 2010 (ended June 30, 2010)

County	IP Cases	% of Total	Cumulative %
Washington, TN	15,835	26.3%	26.3%
Sullivan, TN	7,612	12.7%	39.0%
Carter, TN	6,408	10.7%	49.7%
Wise, VA	4,365	7.3%	56.9%
Smyth, VA	3,593	6.0%	62.9%
Washington, VA	3,536	5.9%	68.8%
Russell, VA	2,841	4.7%	73.5%
Greene, TN	2,647	4.4%	77.9%
Johnson, TN	1,941	3.2%	81.2%
Unicoi, TN	1,884	3.1%	84.3%
Hawkins, TN	1,527	2.5%	86.8%
Dickenson, VA	1,430	2.4%	89.2%
All Other	6,483	10.8%	100.0%
Grand Total	**60,102**	**100.0%**	

Source: JARS, Paragon, and Internal VA Facility reports

Note: excludes Franklin Marion Manor

Note2: Excludes normal newborns

Mountain States Health Alliance
Patient Origin
FY 2010 (ended June 30, 2010)

County	IP Cases	% of Total	Cumulative %
Core Service Area			
Washington, TN	15,835	26.3%	26.3%
Sullivan, TN	7,612	12.7%	39.0%
Carter, TN	6,408	10.7%	49.7%
Wise, VA	4,365	7.3%	56.9%
Smyth, VA	3,593	6.0%	62.9%
Washington, VA	3,536	5.9%	68.8%
Russell, VA	2,841	4.7%	73.5%
Greene, TN	2,647	4.4%	77.9%
Johnson, TN	1,941	3.2%	81.2%
Unicoi, TN	1,884	3.1%	84.3%
Hawkins, TN	1,527	2.5%	86.8%
Dickenson, VA	1,430	2.4%	89.2%
Scott, VA	799	1.3%	90.5%
Core Service Area	54,418	90.5%	
Non-Core Service Area			
Tazewell, VA	500	0.8%	91.4%
Buchanan, VA	251	0.4%	91.8%
Avery, NC	232	0.4%	92.2%
Wythe, VA	180	0.3%	92.5%
Mitchell, NC	159	0.3%	92.7%
Lee, VA	157	0.3%	93.0%
Hamblen, TN	156	0.3%	93.3%
Letcher, KY	147	0.2%	93.5%
Cocke, TN	131	0.2%	93.7%
Harlan, KY	124	0.2%	93.9%
Grayson, VA	98	0.2%	94.1%
Hancock, TN	49	0.1%	94.2%
Watauga, NC	3	0.0%	94.2%
Yancey, NC	3	0.0%	94.2%
Non-Core Service Area	2,190	3.6%	
Core & Non-Core	56,608	94.2%	
All Other	3,494	5.8%	100.0%
Grand Total	60,102	100.0%	

Source: JARS, Paragon, and Internal VA Facility reports

Note: excludes Franklin Marion Manor

Note2: Excludes normal newborns

Mountain States Health Alliance
Gross Patient Revenues by Source of Payment (Payor Mix)
FY 2010 (ended June 30, 2010)

	Fiscal Year Ended June 30, 2010
Medicare	43.4%
TennCare/Medicaid	14.3
Managed Care/ Commercial and Other	34.2
Private Pay	8.2
Total	100.0%

Source: Mountain States Health Alliance

Mountain States Health Alliance
Utilization Information
FY 2010 (ended June 30, 2010)

	Fiscal Year Ended June 30, 2010
Average Daily Census	800
Occupancy Rate	46.2%
Patient Days	291,986
Admissions	60,102
Average Length of Stay	4.86
Outpatient Visits	1,607,790
Licensed Beds	1,789

Source: Mountain States Health Alliance

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2010
Historical Maximum Annual Debt Service Coverage

Calculation:	First Quarter Ended Sept. 30, 2009 [1]	Second Quarter Ended Dec. 31, 2009 [1]	Third Quarter Ended March 31, 2010 [1]	Fourth Quarter Ended June 30, 2010 [1]	Twelve Months Ended Sept. 30, 2009	Twelve Months Ended Dec. 31, 2009	Twelve Months Ended March 30, 2010	Twelve Months Ended June 30, 2010	*Obligated Group* Audited Year-End June 30, 2010 [2]
Income available for debt service									
Excess of revenue over expenses (before extraord. items)	$ 3,236,871	$ 12,165,862	$ 6,225,171	$ 22,163,150	$ 29,781,379	$ 42,802,162	$ 39,430,252	$ 41,932,739	
Plus depreciation expense	16,535,240	17,045,395	17,501,848	17,370,624	58,544,379	62,970,190	67,845,061	68,453,105	
Plus amortization expense	1,486,304	3,251,451	3,199,498	3,327,134	10,723,405	11,071,873	11,354,342	13,122,700	
Plus interest expense	13,224,853	8,772,593	9,589,626	11,225,726	48,066,366	43,105,894	42,711,129	42,862,665	
Total income available for debt service	137,933,072	164,941,204	146,064,572	216,346,536	147,115,529	159,950,119	161,340,784	166,371,209	141,077,000
Maximum annual debt service	78,282,495	69,701,000	69,674,000	79,730,000	78,282,495	69,701,000	69,674,000	79,730,000	77,187,000
Maximum annual debt service coverage	1.8	2.4	2.1	2.7	1.9	2.3	2.3	2.1	1.8

Footnotes
1- Annualized quarterly total income available for debt service
2- *Obligated Group only*, Audited Historical Maximum Annual Debt Service Coverage, Total income available for debt service includes *Depreciation, Amortization, and Interest expenses*

Mountain States Health Alliance

Fiscal Year 2011
(ending June 30, 2011)

Annual Financial & Operating Data

Mountain States Health Alliance
Facilities Patient Origin
FY 2010 (ended June 30, 2010)

County	Discharges	% of Total
Washington, TN	16,167	26.9%
Sullivan, TN	7,753	12.9%
Carter, TN	6,371	10.6%
Wise, VA [1]	4,327	7.2%
Greene, TN	2,644	4.4%
Smyth, VA	3,606	6.0%
Unicoi, TN	1,863	3.1%
Johnson, TN	1,923	3.2%
Hawkins, TN	1,503	2.5%
Russell, VA	3,306	5.5%
Dickenson, VA	1,442	2.4%
Scott, VA	902	1.5%
Washington, VA [2]	4,207	7.0%
Core Subtotal	56,014	93.2%
Non-Core Subtotal	3,006	5.0%
Other Areas Subtotal	1,082	1.8%
Grand Total	**60,102**	**100.0%**

Source: Mountain States Health Alliance - Fiscal year data excludes normal newbors. Acquired facilities have been included from date of acquisition forward.

Mountain States Health Alliance
Gross Patient Revenues by Source of Payment (Payor Mix)
FY 2011 (ended June 30, 2011)

	Fiscal Year Ended June 30, 2011
Medicare	43.7%
TennCare/Medicaid	13.7
Managed Care/ Commercial and Other	34.2
Private Pay	8.4
Total	100.0%

Source: Mountain States Health Alliance

Mountain States Health Alliance
Utilization Information
FY 2011 (ended June 30, 2011)

	Fiscal Year Ended June 30, 2011
Occupancy Rate (licensed)	47%
Patient Days	288,167
Admissions	61,035
Average Daily Census	789
Average Length of Stay (days)	4.7
Outpatient Visits	1,590,962
ER Visits	242,677
Surgical Cases	39,230
Births	4,511
Newborn Days	9,287
Licensed Beds	1,749

Source: Mountain States Health Alliance

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2011
Historical Maximum Annual Debt Service Coverage

Calculation:	First Quarter Ended Sept. 30, 2010 [1]	Second Quarter Ended Dec. 31, 2010 [1]	Third Quarter Ended March 31, 2011 [1]	Fourth Quarter Ended June 30, 2011 [1]	Twelve Months Ended Sept. 30, 2010	Twelve Months Ended Dec. 31, 2010	Twelve Months Ended March 31, 2011	Twelve Months Ended June 30, 2011	*Obligated Group* Audited Year-End June 30, 2011 [2]
Income available for debt service									
Excess of revenue over expenses (before extraord. items	$ 1,711,973	$ 6,875,346	$ 10,390,905	$ 19,425,059	$ 42,266,156	$ 36,975,640	$ 41,141,374	$ 38,403,281	
Plus depreciation expense	21,008,221	21,836,099	21,874,052	22,781,081	72,926,088	77,716,792	82,088,996	87,499,453	
Plus amortization expense	517,483	623,485	620,188	797,985	10,295,566	7,667,600	5,088,290	2,559,141	
Plus interest expense	12,902,670	11,790,091	10,836,477	9,801,705	42,490,615	45,508,113	46,754,964	45,330,943	
Total income available for debt service	144,561,388	164,500,084	174,886,488	211,223,320	167,978,425	167,868,145	175,073,624	173,792,818	145,340,000
Maximum annual debt service	77,187,000	75,202,000	70,580,000	67,624,650	77,187,000	75,202,000	70,580,000	67,624,650	65,678,000
Maximum annual debt service coverage	1.9	2.2	2.5	3.1	2.2	2.2	2.5	2.6	2.2

Footnotes
1- Annualized quarterly total income available for debt service
2- *Obligated Group only*, Audited Historical Maximum Annual Debt Service Coverage, Total income available for debt service includes *Depreciation, Amortization, and Interest expenses*

Mountain States Health Alliance

Fiscal Year 2012
(ending June 30, 2012)

Annual Financial & Operating Data

Mountain States Health Alliance
Facilities Patient Origin
FY 2012 (ended June 30, 2012)

County	Discharges	% of Total
Washington, TN	16,724	26.9%
Sullivan, TN	7,971	12.8%
Carter, TN	6,738	10.8%
Wise, VA [1]	4,286	6.9%
Greene, TN	2,450	3.9%
Smyth, VA	3,582	5.8%
Unicoi, TN	2,092	3.4%
Johnson, TN	2,052	3.3%
Hawkins, TN	1,520	2.4%
Russell, VA	3,183	5.1%
Dickenson, VA	1,407	2.3%
Scott, VA	963	1.6%
Washington, VA [2]	5,109	8.2%
Core Subtotal	58,077	93.5%
Non-Core Subtotal	2,840	4.6%
Other Areas Subtotal	1,185	1.9%
Grand Total	**62,102**	**100.0%**

Source: Mountain States Health Alliance - Fiscal year data excludes normal newbors. Acquired facilities have been included from date of acquisition forward.

Mountain States Health Alliance
Gross Patient Revenues by Source of Payment (Payor Mix)
FY 2012 (ended June 30, 2012)

	Fiscal Year Ended June 30, 2012
Medicare	44.1%
TennCare/Medicaid	14.2
Managed Care/ Commercial and Other	33.2
Private Pay	8.5
Total	100.0%

Source: Mountain States Health Alliance

Mountain States Health Alliance
Utilization Information
FY 2012 (ended June 30, 2012)

	Fiscal Year Ended June 30, 2011
Occupancy Rate (licensed)	48%
Patient Days	292,910
Admissions	61,154
Average Daily Census	800
Average Length of Stay (days)	4.8
Outpatient Visits	1,592,335
ER Visits	246,821
Surgical Cases	36,971
Births	4,288
Newborn Days	9,116
Licensed Beds	1,623

Source: Mountain States Health Alliance

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2012
Historical Maximum Annual Debt Service Coverage

Calculation:	First Quarter Ended Sept. 30, 2011 [1]	Second Quarter Ended Dec. 31, 2011 [1]	Third Quarter Ended March 31, 2012 [1]	Fourth Quarter Ended June 30, 2012 [1]	Twelve Months Ended Sept. 30, 2011	Twelve Months Ended Dec. 31, 2011	Twelve Months Ended March 31, 2012	Twelve Months Ended June 30, 2012	*Obligated Group* Audited Year-End June 30, 2012 [2]
Income available for debt service									
Excess of revenue over expenses (before extraord. items)	$ 14,663,165	$ 1,831,046	$ 3,366,688	$ 25,813,207	$ 51,354,475	$ 46,310,175	$ 39,285,958	$ 45,674,106	
Plus depreciation expense	17,827,079	17,631,863	18,726,373	18,624,326	84,318,311	80,114,075	76,966,396	72,809,641	
Plus amortization expense	541,220	575,931	555,332	572,842	2,582,878	2,535,324	2,470,468	2,245,325	
Plus interest expense	12,398,271	11,705,382	11,390,297	10,480,259	44,849,920	44,765,211	45,319,031	45,997,585	
Total income available for debt service	181,812,444	126,976,888	136,154,760	221,962,536	183,105,584	173,724,785	164,041,853	166,726,657	145,732,000
Maximum annual debt service	68,198,673	67,893,000	67,879,000	67,854,000	68,198,673	67,893,000	67,879,000	67,854,000	77,211,000
Maximum annual debt service coverage	2.7	1.9	2.0	3.3	2.7	2.6	2.4	2.5	1.9

Footnotes
1- Annualized quarterly total income available for debt service
2- *Obligated Group only*, Audited Historical Maximum Annual Debt Service Coverage, Total income available for debt service includes *Depreciation, Amortization, and Interest expenses*

Fiscal Year 2013
(ending June 30, 2013)

Annual Financial & Operating Data

Historical Maximum Annual Debt Service Coverage Ratio

Mountain States Health Alliance
Facilities Patient Origin
FY 2013 (ending June 30, 2013)

County	Discharges	% of Total
Washington, TN	16,169	27.18%
Sullivan, TN	7,423	12.48%
Carter, TN	6,532	10.98%
Washington, VA	4,937	8.30%
Wise, VA	4,133	6.95%
Smyth, VA	3,457	5.81%
Russell, VA	2,864	4.81%
Greene, TN	2,170	3.65%
Unicoi, TN	2,085	3.51%
Johnson, TN	1,925	3.24%
Hawkins, TN	1,475	2.48%
Dickenson, VA	1,303	2.19%
Scott, VA	1,027	1.73%
Core Subtotal	55,500	93.30%
Non-Core Subtotal	2,823	4.75%
Other Areas Subtotal	1,160	1.95%
Grand Total	**59,483**	**100.00%**

Source: Mountain States Health Alliance - Fiscal year data excludes normal newborns.

Mountain States Health Alliance
Gross Patient Revenues by Source of Payment (Payor Mix)
FY 2013 (ending June 30, 2013)

	Fiscal Year ending June 30, 2013
Medicare	44.5%
TennCare/Medicaid	14.0
Managed Care/ Commercial and Other	32.7
Private Pay	8.8
Total	100.0%

Source: Mountain States Health Alliance

Mountain States Health Alliance
Utilization Information
FY 2013 (ending June 30, 2013)

	Fiscal Year ending June 30, 2013
Occupancy Rate (licensed)	49%
Patient Days	278,559
Admissions	58,103
Average Daily Census	763
Average Length of Stay (days)	4.8
Outpatient Visits	1,664,622
ER Visits	249,415
Surgical Cases	35,914
Births	4,306
Newborn Days	8,567
Licensed Beds	1,623

Source: Mountain States Health Alliance

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2013
Historical Maximum Annual Debt Service Coverage (Audited)

Calculation:	First Quarter ending Sept. 30, 2012 [1]	Second Quarter ending Dec. 31, 2012 [1]	Third Quarter ending March 31, 2013 [1]	Fourth Quarter ending June 30, 2013 [1]	Twelve Months ending Sept. 30, 2012	Twelve Months ending Dec. 31, 2012	Twelve Months ending March 31, 2012	Twelve Months ending June 30, 2013	*Obligated Group* Audited Year-End June 30, 2013 [2]
Income available for debt service									
Excess of revenue over expenses (before extraord. items)	$ 580,909	$ 12,922,730	$ 6,096,225	$ 19,898,689	$ 31,591,850	$ 42,683,534	$ 45,413,071	$ 39,498,553	
Plus depreciation expense	18,781,446	18,430,748	19,310,396	20,909,754	73,764,008	74,562,893	75,146,916	77,432,344	
Plus amortization expense	564,570	562,414	560,137	572,416	2,268,675	2,255,158	2,259,963	2,259,537	
Plus interest expense	10,839,700	11,019,640	10,583,341	10,811,975	44,415,638	43,729,896	42,922,940	43,254,656	
Total income available for debt service	123,066,500	171,742,128	146,200,396	208,771,336	152,040,171	163,231,481	165,742,890	162,445,090	132,740,000
Maximum annual debt service	71,229,000	71,601,000	71,589,000	71,554,000	71,229,000	71,601,000	71,589,000	71,554,000	73,739,000
Maximum annual debt service coverage	1.7	2.4	2.0	2.9	2.1	2.3	2.3	2.3	1.8

Footnotes
1- Annualized quarterly total income available for debt service
2- *Obligated Group only*, Audited Historical Maximum Annual Debt Service Coverage, Total income available for debt service (Historical) includes *Depreciation, Amortization, and Interest expenses*

MOUNTAIN STATES HEALTH ALLIANCE

Fiscal Year 2014
(ending June 30, 2014)

Annual Financial & Operating Data

Historical Maximum Annual Debt Service Coverage Ratio

Mountain States Health Alliance
Facilities Patient Origin
FY 2014 (ending June 30, 2014)

County	Discharges	% of Total
Core Service Area		
Washington, TN	16,205	27.18%
Sullivan, TN	7,217	12.10%
Carter, TN	6,687	11.21%
Washington, VA	4,822	8.09%
Wise, VA	3,795	6.36%
Smyth, VA	3,397	5.70%
Russell, VA	2,629	4.41%
Greene, TN	2,282	3.83%
Unicoi, TN	3,334	5.59%
Johnson, TN	2,057	3.45%
Hawkins, TN	1,456	2.44%
Dickenson, VA	1,122	1.88%
Scott, VA	924	1.55%
Total - Core	55,927	93.79%
Non-Core	2,760	4.63%
Outside Service Area	945	1.58%
Grand Total	**59,632**	**100.00%**

Source: Mountain States Health Alliance - Fiscal year data excludes normal newborns.

Mountain States Health Alliance

Gross Patient Revenues by Source of Payment (Payor Mix)
FY 2014 (ending June 30, 2014)

	Fiscal Year ending June 30, 2014
Medicare	31.6%
Managed Medicare	19.5%
TennCare/Medicaid	14.5%
Managed Care/Commercial/Other	26.8%
Private Pay	7.6%
TOTAL	100.0%

Utilization Information
FY 2014 (ending June 30, 2014)

	Fiscal Year ending June 30, 2014
Occupancy Rate (licensed)	48%
Patient Days	274,569
Admissions	57,040
Average Daily Census	752
Average Length of Stay (days)	4.81
Outpatient Visits	1,693,521
ER Visits	239,606
Surgical Cases	30,238
Births	4,213
Newborn Days	7,746
Licensed Beds	1,717

Source: Mountain States Health Alliance

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2014
Historical Maximum Annual Debt Service Coverage (Audited)

Calculation:	Q1 ending Sept. 30, 2013	Q2 ending Dec. 31, 2013	Q3 ending March 31, 2014	Q4 ending June 30, 2014	12 mos. ending Sept. 30, 2013	12 mos. ending Dec. 31, 2013	12 mos. ending March 31, 2014	12 mos. ending June 30, 2014	*Obligated Group* Audited Year-End June 30, 2014 [1]
Income available for debt service									
Excess of revenue over expenses (before extraord. items)	$ 4,218,630	$ (961,068)	$ (113,320)	$ 31,607,527	$ 43,136,274	$ 29,252,476	$ 23,042,931	$ 34,751,769	
Plus depreciation expense	19,284,204	19,047,262	19,273,023	11,832,248	77,935,102	78,551,616	78,514,243	69,436,737	
Plus amortization expense	552,983	400,273	398,992	389,509	2,247,950	2,085,809	1,924,664	1,741,757	
Plus interest expense	11,002,163	11,304,337	11,169,392	10,925,089	43,417,119	43,701,816	44,287,867	44,400,981	
Subtotal	35,057,980	29,790,804	30,728,087	54,754,373	166,736,445	153,591,717	147,769,705	150,331,244	
Annualized quarterly total income available for debt service	*x 4*	*x 4*	*x 4*	*x 4*	*n/a*	*n/a*	*n/a*	*n/a*	
Total income available for debt service	140,231,920	119,163,216	122,912,348	219,017,492	166,736,445	153,591,717	147,769,705	150,331,244	129,271,000
Maximum annual debt service	70,909,000	70,867,000	70,827,000	70,804,000	70,909,000	70,867,000	70,827,000	70,804,000	73,905,000
Maximum annual debt service coverage	1.98	1.68	1.74	3.09	2.35	2.17	2.09	2.12	1.75

Footnotes
1- *Obligated Group only*, Audited Historical Maximum Annual Debt Service Coverage, Total income available for debt service (Historical) includes *Depreciation, Amortization, and Interest expenses.*

MOUNTAIN STATES
HEALTH ALLIANCE

First Quarter ending September 30, 2009

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance

Statement of Revenue and Expense

For the Period Ended September 30, 2009

	THREE MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	461,325,969
Outpatient Revenue	417,669,048
Total Gross Patient Revenue	878,995,017
Deductions from Revenue	
Contractual Adjustments	602,017,671
Charity	12,235,478
Contra Revenue - Self Pay	33,496,289
Cost of Goods Sold	368,844
Total Deductions	648,118,281
Net Patient Service Revenue	230,876,735
Other Operating Revenue	4,560,660
Total Operating Revenue	235,437,396
Operating Expense	
Salaries	81,368,607
Physician Salaries	13,148,857
Contract Labor	2,295,050
Employee Benefits	18,966,469
Fees	20,982,702
Supplies	45,143,128
Utilities	4,154,350
Other Expense	16,666,166
Depreciation	16,535,240
Amortization	3,344,620
Bad Debt	2,004,430
Interest & Taxes	13,249,787
Management Fees	0
Total Operating Expense	237,859,406
Net Operating Income	(2,422,010)
Net Investment Income	4,997,693
Realized Gain on Investments	346,650
Gain / (Loss) from Affiliates	188,523
Gain / (Loss) on Disposal	(8,941)
Loss on Extinguishment of LTD / Derivatives	0
Minority Interest	(2,078,365)
Taxes - Non Operating	(24,933)
Incentive Pay	(13,543)
Other Non Operating Income / (Expense)	393,482
Total Revenue Over Expense Before CFV of Derivatives	1,378,556
Change in Fair Value of Interest Rate Swaps	9,717,658
Change in Fair Value of Call Option	(4,304,815)
Total Excess Revenue Over Expense	6,791,398
Net Unrealized Gain / (Loss) on Investments	16,750,429
Total Increase in Unrestricted Net Assets	23,541,828
EBITDA	34,533,136

Mountain States Health Alliance
Consolidated Balance Sheet
At September 30, 2009

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	259,740,449
Current Portion AWUIL	2,693,512
Accounts Receivable (Net)	130,388,642
Other Receivables	16,052,742
Due From Affiliates	(0)
Due From Third Party Payors	(0)
Inventories	18,814,488
Prepaid Expense	11,563,012
	439,252,845
ASSETS WHOSE USE IS LIMITED	305,180,746
OTHER INVESTMENTS	285,031,276
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,128,821,466
Less Allowances for Depreciation	522,027,499
	606,793,967
OTHER ASSETS	
Pledges Receivable	5,888,327
Long Term Compensation Investment	13,635,963
Investments in Unconsolidated Subsidiaries	4,212,739
Land / Equipment Held for Resale	33,062
Assets Held for Expansion	10,898,042
Investments in Subsidiaries	(0)
Goodwill	159,843,518
Deferred Charges and Other	31,171,409
	225,683,060
TOTAL ASSETS	1,861,941,893
LIABILITIES AND FUND BALANCE	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	86,814,701
Accrued Salaries, Benefits, and PTO	55,967,466
Accrued Interest	8,361,368
Due to Affiliates	108
Due to Third Party Payors	12,453,757
Current Portion of Long Term Debt	33,313,161
	196,910,561
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	6,301,849
Long Term Debt	1,019,561,041
Estimated Fair Value of Interest Rate Swaps	38,345,026
Call Option Liability	82,326,922
Deferred Income	21,171,148
Professional Liability Self-Insurance and Other	20,379,008
	1,188,084,993
TOTAL LIABILITIES	1,384,995,555
MINORITY INTEREST	167,527,530
FUND BALANCE	309,418,808
TOTAL LIABILITIES AND FUND BALANCE	1,861,941,893

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2010 - First Quarter ended September 30, 2009
Historical Maximum Annual Debt Service Coverage

Calculation:	First Quarter Ended Sept. 30, 2009 [1]	Twelve Months Ended Sept 30, 2009
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 3,236,871	$ 29,781,379
Plus depreciation expense	16,535,240	58,544,379
Plus amortization expense	1,486,304	10,723,405
Plus interest expense	13,224,853	48,066,366
Total income available for debt service	137,933,072	147,115,529
Maximum annual debt service	78,282,495	78,282,495
Maximum annual debt service coverage	1.8	1.9

Footnotes
1- Annualized quarterly total income available for debt service

MOUNTAIN STATES HEALTH ALLIANCE

Second Quarter ending December 31, 2009

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At December 31, 2009

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	250,959,242
Current Portion AWUIL	5,029,407
Accounts Receivable (Net)	134,921,848
Other Receivables	16,853,163
Due From Affiliates	0
Due From Third Party Payors	0
Inventories	19,869,237
Prepaid Expense	9,760,362
	437,393,259
ASSETS WHOSE USE IS LIMITED	268,359,916
OTHER INVESTMENTS	315,814,039
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,164,796,789
Less Allowances for Depreciation	538,318,261
	626,478,528
OTHER ASSETS	
Pledges Receivable	5,682,523
Long Term Compensation Investment	13,585,860
Investments in Unconsolidated Subsidiaries	4,253,856
Land / Equipment Held for Resale	46,971
Assets Held for Expansion	10,902,042
Investments in Subsidiaries	(0)
Goodwill	157,067,477
Deferred Charges and Other	30,559,897
	222,098,626
TOTAL ASSETS	1,870,144,368
LIABILITIES AND FUND BALANCE	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	84,786,620
Accrued Salaries, Benefits, and PTO	46,023,310
Accrued Interest	15,065,099
Due to Affiliates	8,474
Due to Third Party Payors	16,814,205
Current Portion of Long Term Debt	30,649,911
	193,347,619
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	6,755,022
Long Term Debt	1,019,776,932
Estimated Fair Value of Interest Rate Swaps	18,223,457
Call Option Liability	83,147,451
Deferred Income	21,583,249
Professional Liability Self-Insurance and Other	20,224,854
	1,169,710,964
TOTAL LIABILITIES	1,363,058,584
MINORITY INTEREST	167,626,539
FUND BALANCE	339,459,245
TOTAL LIABILITIES AND FUND BALANCE	1,870,144,368

NOTE: JCMC includes Home Care Services

Mountain States Health Alliance
Statement of Revenue and Expense
For the Period Ended December 31, 2009

	SIX MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	941,164,396
Outpatient Revenue	842,243,568
Total Gross Patient Revenue	1,783,407,964
Deductions from Revenue	
Contractual Adjustments	1,229,969,923
Charity	27,235,155
Contra Revenue - Self Pay	58,186,601
Cost of Goods Sold	778,321
Total Deductions	1,316,170,000
Net Patient Service Revenue	467,237,964
Other Operating Revenue	8,852,074
Total Operating Revenue	476,090,038
Operating Expense	
Salaries	160,879,021
Physician Salaries	27,222,226
Contract Labor	3,676,434
Employee Benefits	42,610,826
Fees	41,555,821
Supplies	89,529,390
Utilities	8,078,169
Other Expense	33,936,860
Depreciation	33,580,634
Amortization	6,596,070
Bad Debt	3,674,005
Interest & Taxes	25,847,619
Management Fees	0
Total Operating Expense	477,187,075
Net Operating Income	(1,097,037)
Net Investment Income	11,320,428
Realized Gain on Investments	967,704
Gain / (Loss) from Affiliates	376,467
Gain / (Loss) on Disposal	(45,485)
Loss on Extinguishment of LTD / Derivatives	(0)
Minority Interest	(2,229,774)
Taxes - Non Operating	(50,315)
Incentive Pay	(37,013)
Other Non Operating Income / (Expense)	488,822
Total Revenue Over Expense Before CFV of Derivatives	9,693,798
Change in Fair Value of Interest Rate Swaps	29,707,026
Change in Fair Value of Call Option	(5,125,344)
Total Excess Revenue Over Expense	34,275,480
Net Unrealized Gain / (Loss) on Investments	19,275,269
Total Increase in Unrestricted Net Assets	53,550,749
EBITDA	75,768,436

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2010 - Second Quarter ended December 31, 2009
Historical Maximum Annual Debt Service Coverage

Calculation:	Second Quarter Ended Dec. 31, 2009 [1]	Twelve Months Ended Dec. 31, 2009
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 12,165,862	$ 42,802,162
Plus depreciation expense	17,045,395	62,970,190
Plus amortization expense	3,251,451	11,071,873
Plus interest expense	8,772,593	43,105,894
Total income available for debt service	164,941,204	159,950,119
Maximum annual debt service	69,701,000	69,701,000
Maximum annual debt service coverage	2.4	2.3

Footnotes
1- Annualized quarterly total income available for debt service

Third Quarter ending March 31, 2010

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance

Consolidated Balance Sheet

At March 31, 2010

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	250,877,461
Current Portion AWUIL	5,917,078
Accounts Receivable (Net)	144,068,420
Other Receivables	16,829,054
Due From Affiliates	0
Due From Third Party Payors	(0)
Inventories	19,376,076
Prepaid Expense	9,863,536
	446,931,625
ASSETS WHOSE USE IS LIMITED	253,142,906
OTHER INVESTMENTS	322,980,410
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,201,717,327
Less Allowances for Depreciation	554,169,632
	647,547,695
OTHER ASSETS	
Pledges Receivable	5,610,067
Long Term Compensation Investment	13,226,130
Investments in Unconsolidated Subsidiaries	4,231,164
Land / Equipment Held for Resale	57,635
Assets Held for Expansion	10,905,673
Investments in Subsidiaries	(0)
Goodwill	153,948,082
Deferred Charges and Other	30,200,635
	218,179,386
TOTAL ASSETS	1,888,782,022
LIABILITIES AND FUND BALANCE	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	87,165,133
Accrued Salaries, Benefits, and PTO	52,840,668
Accrued Interest	8,143,646
Due to Affiliates	349
Due to Third Party Payors	21,401,780
Current Portion of Long Term Debt	29,962,606
	199,514,183
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	6,869,364
Long Term Debt	1,017,552,370
Estimated Fair Value of Interest Rate Swaps	22,857,545
Call Option Liability	88,849,412
Deferred Income	22,397,944
Professional Liability Self-Insurance and Other	20,797,942
	1,179,324,576
TOTAL LIABILITIES	1,378,838,759
MINORITY INTEREST	167,916,925
FUND BALANCE	342,026,338
TOTAL LIABILITIES AND FUND BALANCE	1,888,782,022

NOTE: JCMC includes Home Care Services

Mountain States Health Alliance

Statement of Revenue and Expense

For the Period Ended March 31, 2010

	NINE MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	1,414,876,256
Outpatient Revenue	1,258,787,337
Total Gross Patient Revenue	2,673,663,593
Deductions from Revenue	
Contractual Adjustments	1,839,488,989
Charity	43,720,250
Contra Revenue - Self Pay	86,737,745
Cost of Goods Sold	1,201,089
Total Deductions	1,971,148,074
Net Patient Service Revenue	702,515,519
Other Operating Revenue	13,104,118
Total Operating Revenue	715,619,636
Operating Expense	
Salaries	242,569,879
Physician Salaries	40,724,039
Contract Labor	4,914,098
Employee Benefits	66,429,941
Fees	61,812,659
Supplies	134,048,731
Utilities	12,165,321
Other Expense	51,817,096
Depreciation	51,082,481
Amortization	9,795,567
Bad Debt	5,346,184
Interest & Taxes	31,561,158
Management Fees	0
Total Operating Expense	712,267,153
Net Operating Income	3,352,483
Net Investment Income	15,819,379
Realized Gain on Investments	2,012,591
Gain / (Loss) from Affiliates	545,507
Gain / (Loss) on Disposal	23,148
Loss on Extinguishment of LTD / Derivatives	(0)
Minority Interest	(2,541,659)
Taxes - Non Operating	(75,781)
Incentive Pay	(40,723)
Other Non Operating Income / (Expense)	674,643
Total Revenue Over Expense Before CFV of Derivatives	19,769,589
Change in Fair Value of Interest Rate Swaps	24,943,613
Change in Fair Value of Call Option	(10,827,305)
Total Excess Revenue Over Expense	33,885,897
Net Unrealized Gain / (Loss) on Investments	22,233,993
Total Increase in Unrestricted Net Assets	56,119,891
EBITDA	112,284,576

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2010 - Third Quarter ended March 31, 2010
Historical Maximum Annual Debt Service Coverage

Calculation:	Third Quarter Ended March 31, 2010 [1]	Twelve Months Ended March 31, 2010
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 6,225,171	$ 39,430,252
Plus depreciation expense	17,501,848	67,845,061
Plus amortization expense	3,199,498	11,354,342
Plus interest expense	9,589,626	42,711,129
Total income available for debt service	146,064,572	161,340,784
Maximum annual debt service	69,674,000	69,674,000
Maximum annual debt service coverage	2.1	2.3

Footnotes
1- Annualized quarterly total income available for debt service

MOUNTAIN STATES HEALTH ALLIANCE

Fourth Quarter ending June 30, 2010

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Statement of Revenue and Expense
For the Period Ended June 30, 2010

	TWELVE MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	1,880,898,728
Outpatient Revenue	1,698,088,934
Total Gross Patient Revenue	3,578,987,662
Deductions from Revenue	
Contractual Adjustments	2,457,162,327
Charity	61,377,910
Contra Revenue - Self Pay	111,735,699
Cost of Goods Sold	1,687,733
Total Deductions	2,631,963,669
Net Patient Service Revenue	947,023,994
Other Operating Revenue	17,732,528
Total Operating Revenue	964,756,521
Operating Expense	
Salaries	323,818,274
Physician Salaries	54,465,353
Contract Labor	6,546,022
Employee Benefits	88,857,571
Fees	82,625,555
Supplies	175,332,378
Utilities	16,192,488
Other Expense	67,748,190
Depreciation	68,453,105
Amortization	13,122,700
Bad Debt	7,968,919
Interest & Taxes	42,762,071
Consolidation Allocation	0
Total Operating Expense	947,892,625
Net Operating Income	16,863,896
Net Investment Income	22,110,574
Realized Gain on Investments	2,385,122
Gain / (Loss) from Affiliates	802,540
Gain / (Loss) on Disposal	689,707
Loss on Extinguishment of LTD / Derivatives	(3,028,733)
Minority Interest	(2,409,599)
Taxes - Non Operating	(100,594)
Incentive Pay	(5,127)
Other Non Operating Income / (Expense)	1,596,221
Total Revenue Over Expense Before CFV of Derivatives	38,904,006
Change in Fair Value of Interest Rate Swaps	(2,452,351)
Change in Fair Value of Call Option	(16,240,044)
Total Excess Revenue Over Expense	20,211,611
Net Unrealized Gain / (Loss) on Investments	14,613,209
Total Increase in Unrestricted Net Assets	34,824,820
EBITDA	166,371,209

Mountain States Health Alliance
Comparative Balance Sheet

	June 30 2010
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	240,828,980
Current Portion AWUIL	11,894,633
Accounts Receivable (Net)	126,059,052
Other Receivables	17,604,233
Due From Affiliates	0
Due From Third Party Payors	0
Inventories	21,654,085
Prepaid Expense	9,268,376
	427,309,360
ASSETS WHOSE USE IS LIMITED	287,643,583
OTHER INVESTMENTS	310,761,535
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,261,244,391
Less Allowances for Depreciation	569,929,390
	691,315,001
OTHER ASSETS	
Pledges Receivable	4,678,670
Long Term Compensation Investment	13,143,765
Investments in Unconsolidated Subsidiaries	4,176,588
Land / Equipment Held for Resale	57,635
Assets Held for Expansion	7,466,022
Investments in Subsidiaries	(0)
Goodwill	151,351,899
Deferred Charges and Other	29,816,046
	210,690,624
TOTAL ASSETS	1,927,720,104
LIABILITIES AND FUND BALANCE	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	93,872,739
Accrued Salaries, Benefits, and PTO	45,347,807
Accrued Interest	16,411,281
Due to Affiliates	15,700
Due to Third Party Payors	10,203,113
Current Portion of Long Term Debt	37,792,529
	203,643,169
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	6,068,300
Long Term Debt	1,045,262,277
Estimated Fair Value of Interest Rate Swaps	50,122,746
Call Option Liability	94,262,151
Deferred Income	20,332,071
Professional Liability Self-Insurance and Other	19,809,591
	1,235,857,136
TOTAL LIABILITIES	1,439,500,305
MINORITY INTEREST	167,763,364
FUND BALANCE	
Restricted Fund Balance	11,018,722
Unrestricted Fund Balance	309,437,714
	320,456,435
TOTAL LIABILITIES AND FUND BALANCE	1,927,720,104

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2010 - Fourth Quarter ending June 30, 2010
Historical Maximum Annual Debt Service Coverage

Calculation:	Fourth Quarter Ended June 30, 2010 [1]	Twelve Months Ended June 30, 2010
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 22,163,150	$ 41,932,739
Plus depreciation expense	17,370,624	68,453,105
Plus amortization expense	3,327,134	13,122,700
Plus interest expense	11,225,726	42,862,665
Total income available for debt service	216,346,536	166,371,209
Maximum annual debt service	79,730,000	79,730,000
Maximum annual debt service coverage	2.7	2.1

Footnotes
1- Annualized quarterly total income available for debt service

MOUNTAIN STATES
HEALTH ALLIANCE

First Quarter ending September 30, 2010

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At September 30, 2010

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	213,674,908
Current Portion AWUIL	2,788,012
Accounts Receivable (Net)	135,195,389
Other Receivables	16,774,612
Due From Affiliates	(0)
Due From Third Party Payors	(0)
Inventories	22,106,563
Prepaid Expense	6,637,788
	397,177,272
ASSETS WHOSE USE IS LIMITED	264,897,418
OTHER INVESTMENTS	340,679,685
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,315,549,053
Less Allowances for Depreciation	590,888,356
	724,660,697
OTHER ASSETS	
Pledges Receivable	6,241,385
Long Term Compensation Investment	13,766,693
Investments in Unconsolidated Subsidiaries	4,179,248
Land / Equipment Held for Resale	57,635
Assets Held for Expansion	2,561,921
Investments in Subsidiaries	(0)
Goodwill	151,351,899
Deferred Charges and Other	30,437,591
	208,596,372
TOTAL ASSETS	1,936,011,443
LIABILITIES AND FUND BALANCE	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	99,737,209
Accrued Salaries, Benefits, and PTO	55,849,614
Accrued Interest	10,688,761
Due to Affiliates	60,889
Due to Third Party Payors	15,033,777
Current Portion of Long Term Debt	30,552,667
	211,922,918
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	6,691,229
Long Term Debt	1,034,369,760
Estimated Fair Value of Interest Rate Swaps	43,870,367
Call Option Liability	92,342,944
Deferred Income	20,493,472
Professional Liability Self-Insurance and Other	16,800,112
	1,214,567,884
TOTAL LIABILITIES	1,426,490,802
MINORITY INTEREST	169,724,968
FUND BALANCE	339,795,674
TOTAL LIABILITIES AND FUND BALANCE	1,936,011,443

NOTE: JCMC includes Home Care Services

Mountain States Health Alliance

Statement of Revenue and Expense

For the Period Ended September 30, 2010

	THREE MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	481,282,306
Outpatient Revenue	451,293,466
Total Gross Patient Revenue	932,575,772
Deductions from Revenue	
Contractual Adjustments	643,928,302
Charity	17,583,897
Contra Revenue - Self Pay	34,055,939
Cost of Goods Sold	370,216
Total Deductions	695,938,354
Net Patient Service Revenue	236,637,418
Other Operating Revenue	4,129,800
Total Operating Revenue	240,767,218
Operating Expense	
Salaries	83,438,082
Physician Salaries	14,375,328
Contract Labor	1,579,455
Employee Benefits	16,854,103
Fees	22,096,615
Supplies	43,719,753
Utilities	4,768,128
Other Expense	18,804,028
Depreciation	21,008,221
Amortization	517,483
Bad Debt	2,090,721
Interest & Taxes	12,878,291
Consolidation Allocation	(0)
Total Operating Expense	242,130,208
Net Operating Income	(1,362,990)
Net Investment Income	4,100,830
Realized Gain on Investments	248,185
Gain / (Loss) from Affiliates	266,366
Gain / (Loss) on Disposal	100
Loss on Extinguishment of LTD / Derivatives	0
Minority Interest	(1,314,650)
Taxes - Non Operating	(24,380)
Incentive Pay	(26,586)
Other Non Operating Income / (Expense)	(174,903)
Total Revenue Over Expense Before CFV of Derivatives	1,711,972
Change in Fair Value of Interest Rate Swaps	647,956
Change in Fair Value of Call Option	(2,692,508)
Total Excess Revenue Over Expense	(332,580)
Net Unrealized Gain / (Loss) on Investments	9,737,722
Total Increase in Unrestricted Net Assets	9,405,143
EBITDA	36,140,347

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2011 - First Quarter ended September 30, 2010
Historical Maximum Annual Debt Service Coverage

Calculation:	First Quarter Ended Sept. 30, 2010 [1]	Twelve Months Ended Sept 30, 2010
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 1,711,973	$ 42,266,156
Plus depreciation expense	21,008,221	72,926,088
Plus amortization expense	517,483	10,295,566
Plus interest expense	12,902,670	42,490,615
Total income available for debt service	144,561,388	167,978,425
Maximum annual debt service	77,187,000	77,187,000
Maximum annual debt service coverage	1.9	2.2

Footnotes
1- Annualized quarterly total income available for debt service

MOUNTAIN STATES HEALTH ALLIANCE

Second Quarter ending December 31, 2010

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At December 31, 2010

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	228,461,122
Current Portion AWUIL	4,091,145
Accounts Receivable (Net)	128,049,621
Other Receivables	17,007,252
Due From Affiliates	11,241
Due From Third Party Payors	0
Inventories	22,270,441
Prepaid Expense	7,550,483
	407,441,304
ASSETS WHOSE USE IS LIMITED	230,760,493
OTHER INVESTMENTS	349,292,980
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,348,176,585
Less Allowances for Depreciation	611,593,936
	736,582,649
OTHER ASSETS	
Pledges Receivable	6,062,966
Long Term Compensation Investment	14,280,228
Investments in Unconsolidated Subsidiaries	2,341,676
Land / Equipment Held for Resale	1,680,908
Assets Held for Expansion	2,561,921
Investments in Subsidiaries	(0)
Goodwill	151,626,899
Deferred Charges and Other	30,180,135
	208,734,732
TOTAL ASSETS	1,932,812,158
LIABILITIES AND FUND BALANCE	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	88,073,194
Accrued Salaries, Benefits, and PTO	46,439,013
Accrued Interest	20,768,063
Due to Affiliates	49,340
Due to Third Party Payors	15,201,781
Current Portion of Long Term Debt	30,499,252
	201,030,643
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	7,204,764
Long Term Debt	1,031,400,862
Estimated Fair Value of Interest Rate Swaps	27,565,593
Call Option Liability	89,539,951
Deferred Income	19,341,393
Professional Liability Self-Insurance and Other	17,386,022
	1,192,438,584
TOTAL LIABILITIES	1,393,469,228
MINORITY INTEREST	169,785,137
FUND BALANCE	369,557,793
TOTAL LIABILITIES AND FUND BALANCE	1,932,812,158

Mountain States Health Alliance

Statement of Revenue and Expense

For the Period Ended December 31, 2010

	SIX MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	974,966,163
Outpatient Revenue	888,262,809
Total Gross Patient Revenue	1,863,228,972
Deductions from Revenue	
Contractual Adjustments	1,305,435,656
Charity	32,490,763
Contra Revenue - Self Pay	56,043,105
Cost of Goods Sold	715,303
Total Deductions	1,394,684,827
Net Patient Service Revenue	468,544,145
Other Operating Revenue	8,320,365
Total Operating Revenue	476,864,510
Operating Expense	
Salaries	164,986,537
Physician Salaries	29,571,698
Contract Labor	3,207,143
Employee Benefits	32,695,380
Fees	43,836,666
Supplies	85,803,262
Utilities	9,001,354
Other Expense	36,791,484
Depreciation	42,844,321
Amortization	1,140,968
Bad Debt	3,350,346
Interest & Taxes	24,643,879
Consolidation Allocation	(2)
Total Operating Expense	477,873,036
Net Operating Income	(1,008,525)
Net Investment Income	10,667,284
Realized Gain on Investments	452,246
Gain / (Loss) from Affiliates	497,691
Gain / (Loss) on Disposal	26,478
Loss on Extinguishment of LTD / Derivatives	0
Minority Interest	(1,417,820)
Taxes - Non Operating	(48,884)
Incentive Pay	(42,248)
Other Non Operating Income / (Expense)	(538,903)
Total Revenue Over Expense Before CFV of Derivatives	8,587,318
Change in Fair Value of Interest Rate Swaps	16,821,907
Change in Fair Value of Call Option	110,485
Total Excess Revenue Over Expense	25,519,710
Net Unrealized Gain / (Loss) on Investments	15,533,357
Total Increase in Unrestricted Net Assets	41,053,067
EBITDA	77,265,368

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2011 - Second Quarter ended December 31, 2010
Historical Maximum Annual Debt Service Coverage

Calculation:	First Quarter Ended Dec. 31, 2010 [1]	Twelve Months Ended Dec 31, 2010
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 6,875,346	$ 36,975,640
Plus depreciation expense	21,836,099	77,716,792
Plus amortization expense	623,485	7,667,600
Plus interest expense	11,790,091	45,508,113
Total income available for debt service	164,500,084	167,868,145
Maximum annual debt service	75,202,000	75,202,000
Maximum annual debt service coverage	2.2	2.2

Footnotes
1- Annualized quarterly total income available for debt service

Mountain States Health Alliance

Third Quarter ending March 31, 2011

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At March 31, 2011

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	196,814,231
Current Portion AWUIL	19,731,901
Accounts Receivable (Net)	132,866,321
Other Receivables	19,583,403
Due From Affiliates	0
Due From Third Party Payors	0
Inventories	21,969,267
Prepaid Expense	6,941,489
	397,906,613
ASSETS WHOSE USE IS LIMITED	206,560,463
OTHER INVESTMENTS	398,079,527
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,379,991,528
Less Allowances for Depreciation	630,305,152
	749,686,376
OTHER ASSETS	
Pledges Receivable	6,029,966
Long Term Compensation Investment	15,616,802
Investments in Unconsolidated Subsidiaries	2,484,458
Land / Equipment Held for Resale	57,635
Assets Held for Expansion	4,172,572
Investments in Subsidiaries	(0)
Goodwill	151,626,899
Deferred Charges and Other	29,868,130
	209,856,461
TOTAL ASSETS	1,962,089,440
LIABILITIES AND FUND BALANCE	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	93,267,778
Accrued Salaries, Benefits, and PTO	57,159,150
Accrued Interest	11,831,754
Due to Affiliates	8,848
Due to Third Party Payors	20,110,463
Current Portion of Long Term Debt	30,088,797
	212,466,791
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	8,512,637
Long Term Debt	1,030,849,599
Estimated Fair Value of Interest Rate Swaps	16,866,827
Call Option Liability	89,533,470
Deferred Income	19,460,577
Professional Liability Self-Insurance and Other	17,768,104
	1,182,991,214
TOTAL LIABILITIES	1,395,458,005
MINORITY INTEREST	170,465,340
FUND BALANCE	396,166,095
TOTAL LIABILITIES AND FUND BALANCE	1,962,089,440

NOTE: JCMC includes Home Care Services

Mountain States Health Alliance
Statement of Revenue and Expense
For the Period Ended March 31, 2011

	NINE MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	1,488,076,618
Outpatient Revenue	1,347,028,744
Total Gross Patient Revenue	2,835,105,361
Deductions from Revenue	
Contractual Adjustments	1,993,905,142
Charity	53,416,054
Contra Revenue - Self Pay	77,786,546
Cost of Goods Sold	1,068,764
Total Deductions	2,126,176,506
Net Patient Service Revenue	708,928,855
Other Operating Revenue	12,318,481
Total Operating Revenue	721,247,336
Operating Expense	
Salaries	250,469,982
Physician Salaries	44,332,202
Contract Labor	4,714,112
Employee Benefits	50,121,369
Fees	64,911,158
Supplies	127,985,969
Utilities	13,166,390
Other Expense	54,879,589
Depreciation	64,718,373
Amortization	1,761,156
Bad Debt	4,526,931
Interest & Taxes	35,456,049
Consolidation Allocation	(0)
Total Operating Expense	717,043,280
Net Operating Income	4,204,056
Net Investment Income	14,808,828
Realized Gain on Investments	1,852,843
Gain / (Loss) from Affiliates	643,704
Gain / (Loss) on Disposal	287,244
Loss on Extinguishment of LTD / Derivatives	0
Minority Interest	(2,205,522)
Taxes - Non Operating	(73,189)
Incentive Pay	(47,747)
Other Non Operating Income / (Expense)	(491,994)
Total Revenue Over Expense Before CFV of Derivatives	18,978,223
Change in Fair Value of Interest Rate Swaps	27,392,695
Change in Fair Value of Call Option	116,967
Total Excess Revenue Over Expense	46,487,884
Net Unrealized Gain / (Loss) on Investments	21,132,547
Total Increase in Unrestricted Net Assets	67,620,432
EBITDA	120,986,990

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2011 - Third Quarter ended March 31, 2011
Historical Maximum Annual Debt Service Coverage

Calculation:	Third Quarter Ended March 31, 2011 [1]	Twelve Months Ended March 31, 2011
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 10,390,905	$ 41,141,374
Plus depreciation expense	21,874,052	82,088,996
Plus amortization expense	620,188	5,088,290
Plus interest expense	10,836,477	46,754,964
Total income available for debt service	174,886,488	175,073,624
Maximum annual debt service	70,580,000	70,580,000
Maximum annual debt service coverage	2.5	2.5

Footnotes
1- Annualized quarterly total income available for debt service

Mountain States Health Alliance

Fourth Quarter ending June 30, 2011

Quarterly Financial Information

&

Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At June 30, 2011

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	112,932,971
Current Portion AWUIL	23,454,508
Accounts Receivable (Net)	135,023,319
Other Receivables	19,604,661
Due From Affiliates	28,533
Due From Third Party Payors	10,878,498
Inventories	23,092,574
Prepaid Expense	5,843,619
	330,858,681
ASSETS WHOSE USE IS LIMITED	194,326,848
OTHER INVESTMENTS	479,986,878
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,378,817,815
Less Allowances for Depreciation	586,470,519
	792,347,296
OTHER ASSETS	
Pledges Receivable	5,098,134
Long Term Compensation Investment	16,800,250
Investments in Unconsolidated Subsidiaries	2,366,851
Land / Equipment Held for Resale	57,635
Assets Held for Expansion	4,172,572
Investments in Subsidiaries	(0)
Goodwill	151,630,733
Deferred Charges and Other	29,192,400
	209,318,575
TOTAL ASSETS	2,006,838,277
LIABILITIES AND FUND BALANCE	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	95,243,819
Accrued Salaries, Benefits, and PTO	57,788,998
Accrued Interest	20,079,964
Due to Affiliates	0
Due to Third Party Payors	25,914,943
Current Portion of Long Term Debt	28,050,459
	227,078,183
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	8,796,085
Long Term Debt	1,040,922,529
Estimated Fair Value of Interest Rate Swaps	20,573,187
Call Option Liability	92,044,033
Deferred Income	19,539,126
Professional Liability Self-Insurance and Other	16,189,889
	1,198,064,849
TOTAL LIABILITIES	1,425,143,032
MINORITY INTEREST	171,608,431
FUND BALANCE	410,086,815
TOTAL LIABILITIES AND FUND BALANCE	2,006,838,277

NOTE: JCMC includes Home Care Services

Mountain States Health Alliance

Statement of Revenue and Expense

For the Period Ended June 30, 2011

	TWELVE MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	1,983,339,667
Outpatient Revenue	1,806,960,043
Total Gross Patient Revenue	3,790,299,709
Deductions from Revenue	
Contractual Adjustments	2,647,862,693
Charity	72,431,617
Contra Revenue - Self Pay	109,876,805
Cost of Goods Sold	1,495,076
Total Deductions	2,831,666,192
Net Patient Service Revenue	958,633,517
Other Operating Revenue	17,366,079
Total Operating Revenue	975,999,596
Operating Expense	
Salaries	336,039,676
Physician Salaries	59,248,821
Contract Labor	5,963,680
Employee Benefits	67,209,284
Fees	85,918,912
Supplies	169,362,052
Utilities	17,300,334
Other Expense	68,894,786
Depreciation	87,499,453
Amortization	2,559,141
Bad Debt	6,327,970
Interest & Taxes	45,233,433
Consolidation Allocation	(1)
Total Operating Expense	951,557,540
Net Operating Income	24,442,056
Net Investment Income	21,257,492
Realized Gain on Investments	1,956,856
Gain / (Loss) from Affiliates	829,906
Gain / (Loss) on Disposal	517,406
Loss on Extinguishment of LTD / Derivatives	0
Minority Interest	(3,348,613)
Taxes - Non Operating	(97,510)
Incentive Pay	(6,168,474)
Other Non Operating Income / (Expense)	(985,838)
Total Revenue Over Expense Before CFV of Derivatives	38,403,281
Change in Fair Value of Interest Rate Swaps	23,556,934
Change in Fair Value of Call Option	(2,393,596)
Total Excess Revenue Over Expense	59,566,619
Net Unrealized Gain / (Loss) on Investments	22,168,046
Total Increase in Unrestricted Net Assets	81,734,665
EBITDA	173,792,818

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2011 - Fourth Quarter ending June 30, 2011
Historical Maximum Annual Debt Service Coverage

Calculation:	Fourth Quarter Ended June 30, 2011 [1]	Twelve Months Ended June 30, 2011
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 19,425,059	$ 38,403,281
Plus depreciation expense	22,781,081	87,499,453
Plus amortization expense	797,985	2,559,141
Plus interest expense	9,801,705	45,330,943
Total income available for debt service	211,223,320	173,792,818
Maximum annual debt service	67,624,650	67,624,650
Maximum annual debt service coverage	3.1	2.6

Footnotes
1- Annualized quarterly total income available for debt service

First Quarter ending September 30, 2011

Quarterly Financial Information

&

Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At September 30, 2011

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	64,300,196
Current Portion AWUIL	109,199,591
Accounts Receivable (Net)	149,341,619
Other Receivables	20,152,422
Due From Affiliates	4,030
Due From Third Party Payors	(0)
Inventories	23,859,579
Prepaid Expense	7,540,923
	374,398,359
ASSETS WHOSE USE IS LIMITED	115,741,993
OTHER INVESTMENTS	449,962,997
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,420,882,984
Less Allowances for Depreciation	599,341,389
	821,541,594
OTHER ASSETS	
Pledges Receivable	5,138,314
Long Term Compensation Investment	16,174,730
Investments in Unconsolidated Subsidiaries	2,229,839
Land / Equipment Held for Resale	72,215
Assets Held for Expansion	4,172,572
Investments in Subsidiaries	(0)
Goodwill	153,044,114
Deferred Charges and Other	28,699,891
	209,531,675
TOTAL ASSETS	1,971,176,619
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	90,150,023
Accrued Salaries, Benefits, and PTO	48,981,245
Accrued Interest	11,147,685
Due to Affiliates	(0)
Due to Third Party Payors	18,737,435
Call Option Liability	96,720,200
Current Portion of Long Term Debt	38,169,177
	303,905,765
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	8,170,566
Long Term Debt	1,029,138,229
Estimated Fair Value of Interest Rate Swaps	31,931,345
Deferred Income	22,492,593
Professional Liability Self-Insurance and Other	15,866,850
	1,107,599,581
TOTAL LIABILITIES	1,411,505,346
NET ASSETS	392,344,900
NONCONTROLLING INTERESTS IN SUBSIDIARIES	167,326,373
TOTAL LIABILITIES AND NET ASSETS	1,971,176,619

Mountain States Health Alliance

Statement of Revenue and Expense

For the Period Ended September 30, 2011

	THREE MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	516,300,287
Outpatient Revenue	497,252,005
Total Gross Patient Revenue	1,013,552,292
Deductions from Revenue	
Contractual Adjustments	718,898,800
Charity	23,744,659
Contra Revenue - Charity	26,410,270
Total Deductions	769,053,728
Net Patient Service Revenue	244,498,564
Other Operating Revenue	5,130,084
Total Operating Revenue	249,628,648
Operating Expense	
Salaries	88,084,292
Provider Salaries	15,641,333
Contract Labor	1,341,337
Employee Benefits	17,033,289
Fees	24,150,387
Supplies	42,262,882
Utilities	4,889,861
Other Expense	19,752,155
Depreciation	17,827,079
Amortization	541,220
Bad Debt	1,578,344
Interest & Taxes	12,398,271
Consolidation Allocation	1
Total Operating Expense	245,500,452
Net Operating Income	4,128,196
Net Investment Income	5,377,592
Realized Gain on Investments	17,983
Gain / (Loss) from Affiliates	45,573
Gain / (Loss) on Disposal	81,701
Loss on Extinguishment of LTD / Derivatives	0
Minority Interest	4,714,526
Taxes - Non Operating	(23,376)
Incentive Pay	(955)
Other Non Operating Income / (Expense)	321,924
Total Revenue Over Expense Before CFV of Derivatives	14,663,165
Change in Fair Value of Interest Rate Swaps	(13,372,957)
Change in Fair Value of Call Option	(4,676,167)
Total Excess Revenue Over Expense	(3,385,960)
Net Unrealized Gain / (Loss) on Investments	(14,372,757)
Increase in Unrestricted Net Assets Before Change in Accounting Principle	(17,758,716)
Cumulative Effect of Change in Accounting Principle	0
Total Increase in Unrestricted Net Assets	(17,758,716)
EBITDA	45,453,111

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2012 - First Quarter ended September 30, 2011
Historical Maximum Annual Debt Service Coverage

Calculation:	First Quarter Ended Sept. 30, 2011 [1]	Twelve Months Ended Sept 30, 2011
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 14,663,165	$ 51,354,475
Plus depreciation expense	17,827,079	84,318,311
Plus amortization expense	541,220	2,582,878
Plus interest expense	12,398,271	44,849,920
Total income available for debt service	181,812,444	183,105,584
Maximum annual debt service	68,198,673	68,198,673
Maximum annual debt service coverage	2.7	2.7

Footnotes
1- Annualized quarterly total income available for debt service

MOUNTAIN STATES
HEALTH ALLIANCE

Second Quarter ending December 31, 2011

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At December 31, 2011

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	81,053,337
Current Portion AWUIL	21,654,148
Accounts Receivable (Net)	152,452,826
Other Receivables	19,872,272
Due From Affiliates	2,131
Due From Third Party Payors	(0)
Inventories	24,724,080
Prepaid Expense	6,496,847
	306,255,642
ASSETS WHOSE USE IS LIMITED	115,107,811
OTHER INVESTMENTS	458,349,572
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,424,255,602
Less Allowances for Depreciation	589,490,992
	834,764,610
OTHER ASSETS	
Pledges Receivable	5,028,709
Long Term Compensation Investment	17,169,413
Investments in Unconsolidated Subsidiaries	2,475,775
Land / Equipment Held for Resale	82,785
Assets Held for Expansion	4,172,572
Investments in Subsidiaries	(0)
Goodwill	152,767,657
Deferred Charges and Other	28,861,665
	210,558,575
TOTAL ASSETS	1,925,036,209
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	92,555,814
Accrued Salaries, Benefits, and PTO	51,971,362
Accrued Interest	19,465,976
Due to Affiliates	(3,438)
Due to Third Party Payors	23,386,222
Call Option Liability	0
Current Portion of Long Term Debt	30,864,716
	218,240,651
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	8,798,592
Long Term Debt	1,057,698,338
Estimated Fair Value of Interest Rate Swaps	26,234,487
Deferred Income	29,984,080
Professional Liability Self-Insurance and Other	16,095,909
	1,138,811,406
TOTAL LIABILITIES	1,357,052,057
NET ASSETS	401,058,217
NONCONTROLLING INTERESTS IN SUBSIDIARIES	166,925,936
TOTAL LIABILITIES AND NET ASSETS	1,925,036,209

Mountain States Health Alliance
Statement of Revenue and Expense
For the Period Ended December 31, 2011

	SIX MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	1,049,086,418
Outpatient Revenue	989,925,112
Total Gross Patient Revenue	2,039,011,531
Deductions from Revenue	
Contractual Adjustments	1,457,464,984
Charity	48,910,746
Contra Revenue - Charity	50,595,885
Total Deductions	1,556,971,614
Net Patient Service Revenue	482,039,916
Other Operating Revenue	10,468,203
Total Operating Revenue	492,508,119
Operating Expense	
Salaries	176,165,601
Provider Salaries	32,294,569
Contract Labor	3,064,189
Employee Benefits	33,605,394
Fees	48,000,878
Supplies	85,261,609
Utilities	9,027,912
Other Expense	39,189,202
Depreciation	35,458,942
Amortization	1,117,151
Bad Debt	3,361,725
Interest & Taxes	24,079,649
Consolidation Allocation	(0)
Total Operating Expense	490,626,818
Net Operating Income	1,881,301
Net Investment Income	12,051,021
Realized Gain on Investments	(2,842,240)
Gain / (Loss) from Affiliates	276,486
Gain / (Loss) on Disposal	81,421
Loss on Extinguishment of LTD / Derivatives	(2,636,011)
Minority Interest	4,968,713
Taxes - Non Operating	(47,382)
Incentive Pay	(14,492)
Other Non Operating Income / (Expense)	139,382
Total Revenue Over Expense Before CFV of Derivatives	13,858,199
Change in Fair Value of Interest Rate Swaps	(8,119,147)
Change in Fair Value of Call Option	(4,676,167)
Total Excess Revenue Over Expense	1,062,885
Net Unrealized Gain / (Loss) on Investments	(10,219,779)
Increase in Unrestricted Net Assets Before Change in Accounting Principle	(9,156,894)
Cumulative Effect of Change in Accounting Principle	0
Total Increase in Unrestricted Net Assets	(9,156,894)
EBITDA	77,197,333

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2012 - Second Quarter ended December 31, 2011
Historical Maximum Annual Debt Service Coverage

Calculation:	Second Quarter Ended Dec. 31, 2011 [1]	Twelve Months Ended Dec. 31, 2011
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 1,831,046	$ 46,310,175
Plus depreciation expense	17,631,863	80,114,075
Plus amortization expense	575,931	2,535,324
Plus interest expense	11,705,382	44,765,211
Total income available for debt service	126,976,888	173,724,785
Maximum annual debt service	67,893,000	67,893,000
Maximum annual debt service coverage	1.9	2.6

Footnotes
1- Annualized quarterly total income available for debt service

Mountain States Health Alliance

Third Quarter ending March 31, 2012

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At March 31, 2012

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	57,243,110
Current Portion AWUIL	18,913,874
Accounts Receivable (Net)	156,395,275
Other Receivables	19,362,559
Due From Affiliates	683
Due From Third Party Payors	0
Inventories	23,354,508
Prepaid Expense	7,900,145
	283,170,153
ASSETS WHOSE USE IS LIMITED	102,737,844
OTHER INVESTMENTS	469,524,957
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,456,352,073
Less Allowances for Depreciation	608,003,319
	848,348,754
OTHER ASSETS	
Pledges Receivable	5,033,312
Long Term Compensation Investment	17,739,313
Investments in Unconsolidated Subsidiaries	2,448,586
Land / Equipment Held for Resale	82,785
Assets Held for Expansion	4,172,572
Investments in Subsidiaries	(0)
Goodwill	152,767,657
Deferred Charges and Other	28,680,909
	210,925,134
TOTAL ASSETS	1,914,706,842
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	92,489,943
Accrued Salaries, Benefits, and PTO	51,056,206
Accrued Interest	10,563,345
Due to Affiliates	0
Due to Third Party Payors	11,968,915
Call Option Liability	0
Current Portion of Long Term Debt	29,963,804
	196,042,213
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	9,368,492
Long Term Debt	1,051,141,230
Estimated Fair Value of Interest Rate Swaps	15,333,143
Deferred Income	29,320,606
Professional Liability Self-Insurance and Other	16,446,955
	1,121,610,426
TOTAL LIABILITIES	1,317,652,639
NET ASSETS	432,011,647
NONCONTROLLING INTERESTS IN SUBSIDIARIES	165,042,556
TOTAL LIABILITIES AND NET ASSETS	1,914,706,842

Mountain States Health Alliance

Statement of Revenue and Expense

For the Period Ended March 31, 2012

	NINE MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	1,594,461,642
Outpatient Revenue	1,501,008,991
Total Gross Patient Revenue	3,095,470,633
Deductions from Revenue	
Contractual Adjustments	2,215,121,543
Charity	75,402,523
Contra Revenue - Charity	80,224,504
Total Deductions	2,370,748,569
Net Patient Service Revenue	724,722,064
Other Operating Revenue	15,817,593
Total Operating Revenue	740,539,657
Operating Expense	
Salaries	267,704,901
Provider Salaries	48,901,790
Contract Labor	4,598,270
Employee Benefits	51,405,717
Fees	72,085,367
Supplies	129,891,857
Utilities	13,080,247
Other Expense	58,055,206
Depreciation	54,185,314
Amortization	1,672,483
Bad Debt	5,065,047
Interest & Taxes	35,445,537
Consolidation Allocation	(0)
Total Operating Expense	742,091,735
Net Operating Income	(1,552,078)
Net Investment Income	16,862,123
Realized Gain on Investments	396,150
Gain / (Loss) from Affiliates	483,089
Gain / (Loss) on Disposal	286,246
Loss on Extinguishment of LTD / Derivatives	(2,636,011)
Minority Interest	2,991,994
Taxes - Non Operating	(71,791)
Incentive Pay	(22,433)
Other Non Operating Income / (Expense)	487,596
Total Revenue Over Expense Before CFV of Derivatives	17,224,887
Change in Fair Value of Interest Rate Swaps	2,654,368
Gain / (Loss) in Swaption / Call Option	(4,676,167)
Total Excess Revenue Over Expense	15,203,088
Net Unrealized Gain / (Loss) on Investments	2,756,617
Increase in Unrestricted Net Assets Before Change in Accounting Principle	17,959,704
Cumulative Effect of Change in Accounting Principle	0
Total Increase in Unrestricted Net Assets	17,959,704
EBITDA	111,236,022

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2012 - Third Quarter ended March 31, 2012
Historical Maximum Annual Debt Service Coverage

Calculation:	Third Quarter Ended March 31, 2012 [1]	Twelve Months Ended March 31, 2012
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 3,366,688	$ 39,285,958
Plus depreciation expense	18,726,373	76,966,396
Plus amortization expense	555,332	2,470,468
Plus interest expense	11,390,297	45,319,031
Total income available for debt service	136,154,760	164,041,853
Maximum annual debt service	67,879,000	67,879,000
Maximum annual debt service coverage	2.0	2.4

Footnotes
1- Annualized quarterly total income available for debt service

MOUNTAIN STATES
HEALTH ALLIANCE

Fourth Quarter ending June 30, 2012

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At June 30, 2012

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	65,107,478
Current Portion AWUIL	36,556,863
Accounts Receivable (Net)	151,099,630
Other Receivables	23,342,106
Due From Affiliates	(0)
Due From Third Party Payors	(0)
Inventories	23,207,980
Prepaid Expense	5,214,129
	304,528,184
ASSETS WHOSE USE IS LIMITED	94,655,402
OTHER INVESTMENTS	466,043,661
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,487,969,557
Less Allowances for Depreciation	626,302,140
	861,667,417
OTHER ASSETS	
Pledges Receivable	4,302,229
Long Term Compensation Investment	19,049,718
Investments in Unconsolidated Subsidiaries	2,431,219
Land / Equipment Held for Resale	57,635
Assets Held for Expansion	2,561,921
Investments in Subsidiaries	(0)
Goodwill	153,082,632
Deferred Charges and Other	28,159,300
	209,644,654
TOTAL ASSETS	1,936,539,318
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	103,357,075
Accrued Salaries, Benefits, and PTO	55,441,176
Accrued Interest	18,524,949
Due to Affiliates	(0)
Due to Third Party Payors	18,914,006
Call Option Liability	0
Current Portion of Long Term Debt	32,774,037
	229,011,243
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	9,375,836
Long Term Debt	1,049,098,131
Estimated Fair Value of Interest Rate Swaps	19,381,031
Deferred Income	3,133,674
Professional Liability Self-Insurance and Other	15,121,888
	1,096,110,560
TOTAL LIABILITIES	1,325,121,803
NET ASSETS	447,711,812
NONCONTROLLING INTERESTS IN SUBSIDIARIES	163,705,703
TOTAL LIABILITIES AND NET ASSETS	1,936,539,318

Mountain States Health Alliance

Statement of Revenue and Expense

For the Period Ended June 30, 2012

	TWELVE MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	2,095,036,076
Outpatient Revenue	1,982,153,858
Total Gross Patient Revenue	4,077,189,934
Deductions from Revenue	
Contractual Adjustments	2,900,865,230
Charity	102,462,014
Contra Revenue - Charity	115,859,919
Provision for Bad Debt	7,057,091
Total Deductions	3,126,244,253
Net Patient Service Revenue	950,945,681
Premium Revenue	0
Other Operating Revenue	37,558,809
Total Other Operating Revenue	37,558,809
Total Operating Revenue	988,504,490
Operating Expense	
Salaries	355,861,320
Provider Salaries	65,706,018
Contract Labor	6,375,046
Employee Benefits	68,606,885
Fees	97,906,470
Supplies	170,183,926
Utilities	17,289,129
Other Expense	75,578,539
Medical Costs	0
Depreciation	72,809,640
Amortization	2,245,325
Interest & Taxes	45,902,806
Consolidation Allocation	(1)
Total Operating Expense	978,465,103
Net Operating Income	10,039,388
Net Investment Income	22,766,794
Realized Gain on Investments	5,170,970
Gain / (Loss) from Affiliates	644,531
Gain / (Loss) on Disposal	446,228
Loss on Extinguishment of LTD / Derivatives	(2,636,011)
Minority Interest	4,328,847
Taxes - Non Operating	(94,781)
Incentive Pay	(2,741,994)
Other Non Operating Income / (Expense)	5,114,121
Total Revenue Over Expense Before CFV of Derivatives	43,038,093
Change in Fair Value of Interest Rate Swaps	(1,521,348)
Gain / (Loss) in Swaption / Call Option	(4,676,167)
Total Excess Revenue Over Expense	36,840,578
Net Unrealized Gain / (Loss) on Investments	(2,920,893)
Increase in Unrestricted Net Assets Before Change in Accounting Principle	33,919,684
Cumulative Effect of Change in Accounting Principle	0
Total Increase in Unrestricted Net Assets	33,919,684
EBITDA	166,726,657

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2012 - Fourth Quarter ended June 30, 2012
Historical Maximum Annual Debt Service Coverage

Calculation:	Fourth Quarter ended June 30, 2012 [1]	Twelve Months ended June 30, 2012
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 25,813,207	$ 45,674,106
Plus depreciation expense	18,624,326	72,809,641
Plus amortization expense	572,842	2,245,325
Plus interest expense	10,480,259	45,997,585
Total income available for debt service	221,962,536	166,726,657
Maximum annual debt service	67,854,000	67,854,000
Maximum annual debt service coverage (x)	3.3	2.5

Footnotes
1- Annualized quarterly total income available for debt service

MOUNTAIN STATES HEALTH ALLIANCE

First Quarter ending September 30, 2012

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At September 30, 2012

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	95,135,962
Current Portion AWUIL	16,320,622
Accounts Receivable (Net)	155,912,321
Other Receivables	22,734,190
Due From Affiliates	2,138
Due From Third Party Payors	(0)
Inventories	23,494,167
Prepaid Expense	7,023,481
	320,622,881
ASSETS WHOSE USE IS LIMITED	127,745,513
OTHER INVESTMENTS	477,553,250
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,512,780,071
Less Allowances for Depreciation	645,372,485
	867,407,586
OTHER ASSETS	
Pledges Receivable	4,373,669
Long Term Compensation Investment	19,693,049
Investments in Unconsolidated Subsidiaries	2,074,042
Land / Equipment Held for Resale	57,635
Assets Held for Expansion	2,561,921
Investments in Subsidiaries	0
Goodwill	154,391,425
Deferred Charges and Other	29,446,672
	212,598,413
TOTAL ASSETS	2,005,927,643
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	88,841,293
Accrued Salaries, Benefits, and PTO	54,992,519
Accrued Interest	10,256,641
Due to Affiliates	0
Due to Third Party Payors	19,714,606
Call Option Liability	0
Current Portion of Long Term Debt	32,268,476
	206,073,535
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	9,927,484
Long Term Debt	1,117,046,085
Estimated Fair Value of Interest Rate Swaps	11,805,149
Deferred Income	17,460,510
Professional Liability Self-Insurance and Other	17,096,816
	1,173,336,045
TOTAL LIABILITIES	1,379,409,580
NET ASSETS	460,351,620
NONCONTROLLING INTERESTS IN SUBSIDIARIES	166,166,444
TOTAL LIABILITIES AND NET ASSETS	2,005,927,643

Mountain States Health Alliance
Statement of Revenue and Expense
For the Period Ended September 30, 2012

	THREE MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	513,368,161
Outpatient Revenue	521,455,394
Total Gross Patient Revenue	1,034,823,555
Deductions from Revenue	
Contractual Adjustments	749,947,356
Charity	23,176,465
Contra Revenue - Charity	32,010,141
Provision for Bad Debt	2,025,973
Total Deductions	807,159,935
Net Patient Service Revenue	227,663,620
Premium Revenue	0
Other Operating Revenue	10,922,537
Total Other Operating Revenue	10,922,537
Total Operating Revenue	238,586,157
Operating Expense	
Salaries	88,263,642
Provider Salaries	17,322,931
Contract Labor	1,342,146
Employee Benefits	16,580,956
Fees	26,804,479
Supplies	38,406,897
Utilities	4,762,610
Other Expense	20,030,752
Medical Costs	0
Depreciation	18,781,447
Amortization	564,571
Interest & Taxes	10,824,107
Consolidation Allocation	0
Total Operating Expense	243,684,538
Net Operating Income	(5,098,381)
Net Investment Income	4,296,224
Realized Gain on Investments	3,227,757
Gain / (Loss) from Affiliates	159,553
Gain / (Loss) on Disposal	(6,393)
Loss on Extinguishment of LTD / Derivatives	0
Minority Interest	(2,042,117)
Taxes - Non Operating	(15,593)
Incentive Pay	(1,369)
Other Non Operating Income / (Expense)	61,227
Total Revenue Over Expense Before CFV of Derivatives	580,909
Change in Fair Value of Interest Rate Swaps	7,448,107
Gain / (Loss) in Swaption / Call Option	0
Total Excess Revenue Over Expense	8,029,016
Net Unrealized Gain / (Loss) on Investments	5,726,184
Increase in Unrestricted Net Assets Before Change in Accounting Principle	13,755,200
Cumulative Effect of Change in Accounting Principle	0
Total Increase in Unrestricted Net Assets	13,755,200
EBITDA	30,766,626

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2013 - First Quarter ended September 30, 2012
Historical Maximum Annual Debt Service Coverage

Calculation:	First Quarter Ended Sept. 30, 2012 [1]	Twelve Months Ended Sept. 30, 2012
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 580,909	$ 31,591,850
Plus depreciation expense	18,781,446	73,764,008
Plus amortization expense	564,570	2,268,675
Plus interest expense	10,839,700	44,415,638
Total income available for debt service	123,066,500	152,040,171
Maximum annual debt service	71,229,000	71,229,000
Maximum annual debt service coverage	1.7	2.1

Footnotes
1- Annualized quarterly total income available for debt service

Mountain States Health Alliance

Second Quarter ending December 31, 2012

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At December 31, 2012

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	72,522,316
Current Portion AWUIL	18,371,776
Accounts Receivable (Net)	161,171,175
Other Receivables	26,900,445
Due From Affiliates	0
Due From Third Party Payors	(0)
Inventories	23,547,473
Prepaid Expense	6,897,408
	309,410,592
ASSETS WHOSE USE IS LIMITED	117,319,461
OTHER INVESTMENTS	486,289,022
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,544,089,935
Less Allowances for Depreciation	663,881,642
	880,208,294
OTHER ASSETS	
Pledges Receivable	4,304,553
Long Term Compensation Investment	18,650,484
Investments in Unconsolidated Subsidiaries	2,075,377
Land / Equipment Held for Resale	57,635
Assets Held for Expansion	2,561,921
Investments in Subsidiaries	(0)
Goodwill	154,391,425
Deferred Charges and Other	29,164,429
	211,205,823
TOTAL ASSETS	2,004,433,193
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	87,954,363
Accrued Salaries, Benefits, and PTO	56,984,043
Accrued Interest	19,631,277
Due to Affiliates	1,632
Due to Third Party Payors	20,777,422
Call Option Liability	0
Current Portion of Long Term Debt	31,166,563
	216,515,299
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	8,856,219
Long Term Debt	1,097,503,333
Estimated Fair Value of Interest Rate Swaps	(1,003,336)
Deferred Income	20,837,959
Professional Liability Self-Insurance and Other	17,832,002
	1,144,026,176
TOTAL LIABILITIES	1,360,541,476
NET ASSETS	476,607,779
NONCONTROLLING INTERESTS IN SUBSIDIARIES	167,283,937
TOTAL LIABILITIES AND NET ASSETS	2,004,433,193

Mountain States Health Alliance

Statement of Revenue and Expense

For the Period Ended December 31, 2012

	SIX MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	1,044,578,961
Outpatient Revenue	1,040,531,773
Total Gross Patient Revenue	2,085,110,734
Deductions from Revenue	
Contractual Adjustments	1,508,394,194
Charity	45,109,393
Contra Revenue - Charity	59,916,824
Provision for Bad Debt	3,676,413
Total Deductions	1,617,096,824
Net Patient Service Revenue	468,013,910
Premium Revenue	0
Other Operating Revenue	26,613,621
Total Other Operating Revenue	26,613,621
Total Operating Revenue	494,627,531
Operating Expense	
Salaries	175,067,697
Provider Salaries	36,510,784
Contract Labor	1,979,395
Employee Benefits	34,768,201
Fees	52,886,638
Supplies	81,033,755
Utilities	8,905,789
Other Expense	41,026,789
Medical Costs	0
Depreciation	37,212,195
Amortization	1,126,985
Interest & Taxes	21,828,156
Consolidation Allocation	0
Total Operating Expense	492,346,385
Net Operating Income	2,281,146
Net Investment Income	10,509,870
Realized Gain on Investments	3,508,255
Gain / (Loss) from Affiliates	364,238
Gain / (Loss) on Disposal	17,009
Loss on Extinguishment of LTD / Derivatives	0
Minority Interest	(3,159,610)
Taxes - Non Operating	(31,184)
Incentive Pay	(2,386)
Other Non Operating Income / (Expense)	16,302
Total Revenue Over Expense Before CFV of Derivatives	13,503,640
Change in Fair Value of Interest Rate Swaps	9,815,602
Gain / (Loss) in Swaption / Call Option	0
Total Excess Revenue Over Expense	23,319,242
Net Unrealized Gain / (Loss) on Investments	6,609,380
Increase in Unrestricted Net Assets Before Change in Accounting Principle	29,928,622
Cumulative Effect of Change in Accounting Principle	0
Total Increase in Unrestricted Net Assets	29,928,622
EBITDA	73,702,159

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2013 - Second Quarter ending December 31, 2012
Historical Maximum Annual Debt Service Coverage

Calculation:	Second Quarter Ended Dec. 31, 2012 [1]	Twelve Months Ended Dec. 31, 2012
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 12,922,730	$ 42,683,534
Plus depreciation expense	18,430,748	74,562,893
Plus amortization expense	562,414	2,255,158
Plus interest expense	11,019,640	43,729,896
Total income available for debt service	171,742,128	163,231,481
Maximum annual debt service	71,601,000	71,601,000
Maximum annual debt service coverage	2.4	2.3

Footnotes
1- Annualized quarterly total income available for debt service

Third Quarter ending March 31, 2013

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At March 31, 2013

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	73,352,628
Current Portion AWUIL	5,212,489
Accounts Receivable (Net)	164,024,912
Other Receivables	23,517,570
Due From Affiliates	636
Due From Third Party Payors	0
Inventories	24,078,303
Prepaid Expense	7,015,190
	297,201,728
ASSETS WHOSE USE IS LIMITED	102,622,574
OTHER INVESTMENTS	502,612,889
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,575,927,555
Less Allowances for Depreciation	683,321,293
	892,606,262
OTHER ASSETS	
Pledges Receivable	4,458,688
Long Term Compensation Investment	19,575,019
Investments in Unconsolidated Subsidiaries	2,091,800
Land / Equipment Held for Resale	57,635
Assets Held for Expansion	2,561,921
Investments in Subsidiaries	(0)
Goodwill	154,391,425
Deferred Charges and Other	28,172,925
	211,309,413
TOTAL ASSETS	2,006,352,865
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	90,640,509
Accrued Salaries, Benefits, and PTO	51,014,707
Accrued Interest	10,503,068
Due to Affiliates	0
Due to Third Party Payors	16,375,246
Call Option Liability	0
Current Portion of Long Term Debt	30,190,255
	198,723,784
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	9,207,056
Long Term Debt	1,095,563,648
Estimated Fair Value of Interest Rate Swaps	(2,698,493)
Deferred Income	26,092,951
Professional Liability Self-Insurance and Other	18,672,249
	1,146,837,411
TOTAL LIABILITIES	1,345,561,194
NET ASSETS	492,682,341
NONCONTROLLING INTERESTS IN SUBSIDIARIES	168,109,330
TOTAL LIABILITIES AND NET ASSETS	2,006,352,865

Mountain States Health Alliance
Statement of Revenue and Expense
For the Period Ended March 31, 2013

	NINE MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	1,569,450,231
Outpatient Revenue	1,562,768,011
Total Gross Patient Revenue	3,132,218,241
Deductions from Revenue	
Contractual Adjustments	2,262,494,966
Charity	74,479,884
Contra Revenue - Charity	83,546,696
Provision for Bad Debt	4,848,545
Total Deductions	2,425,370,091
Net Patient Service Revenue	706,848,151
Premium Revenue	471,233
Other Operating Revenue	36,059,160
Total Other Operating Revenue	36,530,393
Total Operating Revenue	743,378,543
Operating Expense	
Salaries	263,591,834
Provider Salaries	55,350,206
Contract Labor	2,998,620
Employee Benefits	53,321,379
Fees	79,322,400
Supplies	122,138,050
Utilities	12,787,934
Other Expense	61,605,650
Medical Costs	435,777
Depreciation	56,522,591
Amortization	1,687,121
Interest & Taxes	32,403,734
Consolidation Allocation	0
Total Operating Expense	742,165,296
Net Operating Income	1,213,247
Net Investment Income	14,659,126
Realized Gain on Investments	3,643,343
Gain / (Loss) from Affiliates	585,187
Gain / (Loss) on Disposal	17,009
Loss on Extinguishment of LTD / Derivatives	0
Minority Interest	(3,985,002)
Taxes - Non Operating	(38,947)
Incentive Pay	(4,639)
Other Non Operating Income / (Expense)	3,510,540
Total Revenue Over Expense Before CFV of Derivatives	19,599,865
Change in Fair Value of Interest Rate Swaps	11,425,980
Gain / (Loss) in Swaption / Call Option	0
Total Excess Revenue Over Expense	31,025,845
Net Unrealized Gain / (Loss) on Investments	14,962,030
Increase in Unrestricted Net Assets Before Change in Accounting Principle	45,987,874
Cumulative Effect of Change in Accounting Principle	0
Total Increase in Unrestricted Net Assets	45,987,874
EBITDA	110,252,258

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2013 - Third Quarter ending March 31, 2013
Historical Maximum Annual Debt Service Coverage

Calculation:	Third Quarter Ending March 31, 2013 [1]	Twelve Months Ending March 31, 2013
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 6,096,225	$ 45,413,071
Plus depreciation expense	19,310,396	75,146,916
Plus amortization expense	560,137	2,259,963
Plus interest expense	10,583,341	42,922,940
Total income available for debt service	146,200,396	165,742,890
Maximum annual debt service	71,589,000	71,589,000
Maximum annual debt service coverage	2.0	2.3

Footnotes
1- Annualized quarterly total income available for debt service

Mountain States Health Alliance

Fourth Quarter ending June 30, 2013

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At June 30, 2013

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	74,902,108
Current Portion AWUIL	20,385,598
Accounts Receivable (Net)	168,272,830
Other Receivables	25,523,427
Due From Affiliates	36
Due From Third Party Payors	3,112,967
Inventories	24,043,749
Prepaid Expense	7,029,053
	323,269,769
ASSETS WHOSE USE IS LIMITED	87,805,220
OTHER INVESTMENTS	513,575,142
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,603,510,722
Less Allowances for Depreciation	702,493,560
	901,017,162
OTHER ASSETS	
Pledges Receivable	4,383,340
Long Term Compensation Investment	19,884,279
Investments in Unconsolidated Subsidiaries	2,066,667
Land / Equipment Held for Resale	57,635
Assets Held for Expansion	2,561,921
Investments in Subsidiaries	(0)
Goodwill	154,391,425
Deferred Charges and Other	28,363,290
	211,708,557
TOTAL ASSETS	2,037,375,850
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	92,173,952
Accrued Salaries, Benefits, and PTO	57,972,900
Accrued Interest	19,706,043
Due to Affiliates	0
Due to Third Party Payors	26,245,178
Current Portion of Long Term Debt	34,416,694
	230,514,768
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	9,159,811
Long Term Debt	1,090,347,906
Estimated Fair Value of Interest Rate Swaps	8,185,050
Deferred Income	2,216,201
Professional Liability Self-Insurance and Other	16,435,454
	1,126,344,423
TOTAL LIABILITIES	1,356,859,191
NET ASSETS	510,256,734
NONCONTROLLING INTERESTS IN SUBSIDIARIES	170,259,925
TOTAL LIABILITIES AND NET ASSETS	2,037,375,850

Mountain States Health Alliance
Statement of Revenue and Expense
For the Period Ended June 30, 2013

	TWELVE MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	2,086,518,100
Outpatient Revenue	2,120,400,485
Total Gross Patient Revenue	4,206,918,585
Deductions from Revenue	
Contractual Adjustments	3,057,729,934
Charity	103,093,623
Contra Revenue - Charity	105,565,107
Provision for Bad Debt	6,931,980
Total Deductions	3,273,320,644
Net Patient Service Revenue	933,597,941
Premium Revenue	1,002,843
Other Operating Revenue	60,411,972
Total Other Operating Revenue	61,414,815
Total Operating Revenue	995,012,756
Operating Expense	
Salaries	349,840,902
Provider Salaries	74,257,857
Contract Labor	3,941,874
Employee Benefits	74,695,245
Fees	105,929,651
Supplies	162,955,174
Utilities	16,857,010
Other Expense	78,711,392
Medical Costs	2,539,401
Depreciation	77,432,345
Amortization	2,259,537
Interest & Taxes	43,202,890
Consolidation Allocation	0
Total Operating Expense	992,623,278
Net Operating Income	2,389,478
Net Investment Income	20,570,323
Realized Gain on Investments	3,721,867
Gain / (Loss) from Affiliates	701,288
Gain / (Loss) on Disposal	(1,129)
Loss on Extinguishment of LTD / Derivatives	0
Minority Interest	(6,135,598)
Taxes - Non Operating	(51,766)
Incentive Pay	21,495
Other Non Operating Income / (Expense)	18,282,597
Total Revenue Over Expense Before CFV of Derivatives	39,498,554
Change in Fair Value of Interest Rate Swaps	456,715
Gain / (Loss) in Swaption / Call Option	0
Total Excess Revenue Over Expense	39,955,269
Net Unrealized Gain / (Loss) on Investments	23,376,858
Increase in Unrestricted Net Assets Before Change in Accounting Principle	63,332,126
Cumulative Effect of Change in Accounting Principle	0
Total Increase in Unrestricted Net Assets	63,332,126
EBITDA	162,445,092

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2013 - Fourth Quarter ending June 30, 2013
Historical Maximum Annual Debt Service Coverage

Calculation:	Fourth Quarter Ending June 30, 2013 [1]	Twelve Months Ending June 30, 2013
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 19,898,689	$ 39,498,553
Plus depreciation expense	20,909,754	77,432,344
Plus amortization expense	572,416	2,259,537
Plus interest expense	10,811,975	43,254,656
Total income available for debt service	208,771,336	162,445,090
Maximum annual debt service	71,554,000	71,554,000
Maximum annual debt service coverage	2.9	2.3

Footnotes
1- Annualized quarterly total income available for debt service

MOUNTAIN STATES HEALTH ALLIANCE

First Quarter ending September 30, 2013

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At September 30, 2013

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	53,053,082
Current Portion AWUIL	4,218,870
Accounts Receivable (Net)	165,633,374
Other Receivables	35,761,272
Due From Affiliates	40,510
Due From Third Party Payors	0
Inventories	23,773,081
Prepaid Expense	8,398,963
	290,879,154
ASSETS WHOSE USE IS LIMITED	73,542,745
OTHER INVESTMENTS	553,286,955
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,610,275,566
Less Allowances for Depreciation	723,300,565
	886,975,002
OTHER ASSETS	
Pledges Receivable	4,026,182
Long Term Compensation Investment	20,559,873
Investments in Unconsolidated Subsidiaries	1,985,032
Land / Equipment Held for Resale	7,508,959
Assets Held for Expansion	12,710,794
Investments in Subsidiaries	(0)
Goodwill	154,391,425
Deferred Charges and Other	26,992,274
	228,174,538
TOTAL ASSETS	2,032,858,393
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	91,417,634
Accrued Salaries, Benefits, and PTO	56,413,240
Accrued Interest	9,694,752
Due to Affiliates	0
Due to Third Party Payors	28,631,019
Current Portion of Long Term Debt	26,047,888
	212,204,533
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	9,799,813
Long Term Debt	1,081,595,702
Estimated Fair Value of Interest Rate Swaps	10,209,645
Deferred Income	9,197,050
Professional Liability Self-Insurance and Other	17,553,898
	1,128,356,108
TOTAL LIABILITIES	1,340,560,641
NET ASSETS	521,545,936
NONCONTROLLING INTERESTS IN SUBSIDIARIES	170,751,816
TOTAL LIABILITIES AND NET ASSETS	2,032,858,393

Mountain States Health Alliance
Statement of Revenue and Expense
For the Period Ended September 30, 2013

	THREE MONTHS YEAR TO DATE
	Actual
Patient Revenue	
Inpatient Revenue	549,595,104
Outpatient Revenue	584,371,070
Total Gross Patient Revenue	1,133,966,174
Deductions from Revenue	
Contractual Adjustments	847,578,602
Charity	26,372,445
Contra Revenue - Charity	30,169,144
Provision for Bad Debt	1,911,927
Total Deductions	906,032,117
Net Patient Service Revenue	227,934,057
Premium Revenue	574,348
Other Operating Revenue	13,643,777
Total Other Operating Revenue	14,218,125
Total Operating Revenue	242,152,181
Operating Expense	
Salaries	84,520,923
Provider Salaries	19,367,769
Contract Labor	1,139,990
Employee Benefits	16,321,814
Fees	28,609,361
Supplies	40,594,679
Utilities	4,439,581
Other Expense	19,713,728
Medical Costs	484,379
Depreciation	19,284,204
Amortization	552,983
Interest & Taxes	10,990,317
Consolidation Allocation	(0)
Total Operating Expense	246,019,729
Net Operating Income	(3,867,547)
Net Investment Income	3,892,133
Realized Gain on Investments	977,572
Gain / (Loss) from Affiliates	184,358
Gain / (Loss) on Disposal	2,615,175
Loss on Extinguishment of LTD / Derivatives	(4,622,060)
Minority Interest	271,702
Taxes - Non Operating	(11,847)
Incentive Pay	17,008
Other Non Operating Income / (Expense)	148,877
Total Revenue Over Expense Before CFV of Derivatives	(394,629)
Change in Fair Value of Interest Rate Swaps	(2,111,258)
Gain / (Loss) in Swaption / Call Option	0
Total Excess Revenue Over Expense	(2,505,888)
Net Unrealized Gain / (Loss) on Investments	21,780,005
Increase in Unrestricted Net Assets Before Change in Accounting Principle	19,274,118
Cumulative Effect of Change in Accounting Principle	0
Total Increase in Unrestricted Net Assets	19,274,118
EBITDA	35,066,781

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2014 - First Quarter ended September 30, 2013
Historical Maximum Annual Debt Service Coverage

Calculation:	First Quarter Ended Sept. 30, 2013 [1]	Twelve Months Ended Sept. 30, 2013
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 4,218,630	$ 43,136,274
Plus depreciation expense	19,284,204	77,935,102
Plus amortization expense	552,983	2,247,950
Plus interest expense	11,002,163	43,417,119
Total income available for debt service	140,231,920	166,736,445
Maximum annual debt service	70,909,000	70,909,000
Maximum annual debt service coverage	2.0	2.4

Footnotes
1- Annualized quarterly total income available for debt service

Second Quarter ending December 31, 2013

Quarterly Financial Information

&

Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance

Consolidated Balance Sheet

At December 31, 2013

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	27,595,930
Current Portion AWUIL	21,735,663
Accounts Receivable (Net)	165,644,754
Other Receivables	35,297,064
Due From Affiliates	394
Due From Third Party Payors	(0)
Inventories	25,196,779
Prepaid Expense	7,525,857
	282,996,440
ASSETS WHOSE USE IS LIMITED	69,656,659
OTHER INVESTMENTS	577,438,013
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,612,871,088
Less Allowances for Depreciation	731,630,943
	881,240,144
OTHER ASSETS	
Pledges Receivable	3,998,250
Long Term Compensation Investment	21,983,850
Investments in Unconsolidated Subsidiaries	1,663,053
Land / Equipment Held for Resale	7,508,959
Assets Held for Expansion	13,134,006
Investments in Subsidiaries	(0)
Goodwill	155,715,265
Deferred Charges and Other	26,755,592
	230,758,975
TOTAL ASSETS	2,042,090,231
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	89,776,021
Accrued Salaries, Benefits, and PTO	58,443,444
Accrued Interest	18,933,997
Due to Affiliates	0
Due to Third Party Payors	15,672,853
Current Portion of Long Term Debt	23,402,258
	206,228,573
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	10,801,776
Long Term Debt	1,082,008,813
Estimated Fair Value of Interest Rate Swaps	13,496,134
Deferred Income	13,182,577
Professional Liability Self-Insurance and Other	18,198,587
	1,137,687,887
TOTAL LIABILITIES	1,343,916,461
NET ASSETS	528,329,327
NONCONTROLLING INTERESTS IN SUBSIDIARIES	169,844,443
TOTAL LIABILITIES AND NET ASSETS	2,042,090,231

Mountain States Health Alliance

Statement of Revenue and Expense (Consolidated)

For the Period Ended December 31, 2013

SIX MONTHS YEAR TO DATE

	Actual
Revenue, Gains and Support	
Patient Service Revenue, Net of Contractual Allowances and Discounts	511,421,253
Provision for Bad Debt	(56,453,041)
Net Patient Service Revenue	454,968,212
Premium Revenue	1,158,468
Net Investment Gain	45,085,166
Net Derivative Gain	(2,521,780)
Other Revenue, Gains and Support	24,468,138
Total Revenue, Gains and Support	523,158,203
Expense	
Salaries and Wages	167,248,755
Provider Salaries	38,818,072
Contract Labor	2,038,407
Employee Benefits	33,033,162
Fees	57,891,142
Supplies	80,832,395
Utilities	8,383,068
Medical Costs	1,140,528
Other Expense	42,842,333
Loss on Extinguishment of LTD / Derivatives	4,622,060
Depreciation	38,331,465
Amortization	953,256
Interest & Taxes	22,284,852
Total Expenses	498,419,495
Excess of Revenue, Gains and Support over Expenses and Losses	24,738,708

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2014 - Second Quarter ending December 31, 2013
Historical Maximum Annual Debt Service Coverage

Calculation:	Second Quarter ending Dec. 31, 2013	Twelve Months ending Dec. 31, 2013
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ (961,068)	$ 29,252,476
Plus depreciation expense	19,047,262	78,551,616
Plus amortization expense	400,273	2,085,809
Plus interest expense	11,304,337	43,701,816
Subtotal	29,790,804	153,591,717
Annualized quarterly total income available for debt service	x 4	n/a
Total income available for debt service	119,163,216	153,591,717
Maximum annual debt service	70,867,000	70,867,000
Maximum annual debt service coverage	1.7	2.2

MOUNTAIN STATES HEALTH ALLIANCE

Third Quarter ending March 31, 2014

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet
At March 31, 2014

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	55,626,290
Current Portion AWUIL	8,293,720
Accounts Receivable (Net)	168,414,370
Other Receivables	30,651,417
Due From Affiliates	0
Due From Third Party Payors	0
Inventories	24,976,575
Prepaid Expense	8,958,865
	296,921,238
ASSETS WHOSE USE IS LIMITED	65,034,653
OTHER INVESTMENTS	578,879,514
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,620,770,253
Less Allowances for Depreciation	746,465,808
	874,304,445
OTHER ASSETS	
Pledges Receivable	4,804,368
Long Term Compensation Investment	22,131,092
Investments in Unconsolidated Subsidiaries	1,402,295
Land / Equipment Held for Resale	7,508,959
Assets Held for Expansion	13,134,006
Investments in Subsidiaries	(0)
Goodwill	155,786,750
Deferred Charges and Other	26,385,796
	231,153,266
TOTAL ASSETS	2,046,293,116
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	84,580,303
Accrued Salaries, Benefits, and PTO	49,232,075
Claims Payable	4,913,723
Accrued Interest	9,625,764
Due to Affiliates	99
Due to Third Party Payors	15,241,213
Current Portion of Long Term Debt	44,433,183
	208,026,359
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	10,947,418
Long Term Debt	1,081,616,264
Estimated Fair Value of Interest Rate Swaps	11,553,477
Deferred Income	15,799,291
Professional Liability Self-Insurance and Other	17,386,154
	1,137,302,604
TOTAL LIABILITIES	1,345,328,964
NET ASSETS	530,952,971
NONCONTROLLING INTERESTS IN SUBSIDIARIES	170,011,181
TOTAL LIABILITIES AND NET ASSETS	2,046,293,116

Mountain States Health Alliance

Statement of Revenue and Expense (Consolidated)

For the Month Ended March 31, 2014

NINE MONTHS YEAR TO DATE

	Actual
Revenue, Gains and Support	
Patient Service Revenue, Net of Contractual Allowances and Discounts	769,036,410
Provision for Bad Debt	(81,094,609)
Net Patient Service Revenue	687,941,801
Premium Revenue	5,760,058
Net Investment Gain	47,825,620
Net Derivative Gain	814,281
Other Revenue, Gains and Support	34,154,686
Total Revenue, Gains and Support	776,496,445
Expense	
Salaries and Wages	250,005,814
Provider Salaries	57,586,519
Contract Labor	2,847,148
Employee Benefits	51,613,788
Fees	87,473,663
Supplies	122,064,425
Utilities	12,625,745
Medical Costs	5,405,232
Other Expense	62,382,085
Loss on Extinguishment of LTD / Derivatives	4,622,060
Depreciation	57,604,488
Amortization	1,352,248
Interest & Taxes	33,443,528
Consolidation Allocation	0
Total Expenses	749,026,744
Excess of Revenue, Gains and Support over Expenses and Losses	27,469,701

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2014 - Third Quarter ending March 31, 2014
Historical Maximum Annual Debt Service Coverage

Calculation:	Third Quarter ending March 31, 2014	Twelve Months ending March 31, 2014
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ (113,320)	$ 23,042,931
Plus depreciation expense	19,273,023	78,514,243
Plus amortization expense	398,992	1,924,664
Plus interest expense	11,169,392	44,287,867
Subtotal	30,728,087	147,769,705
Annualized quarterly total income available for debt service	x 4	n/a
Total income available for debt service	122,912,348	147,769,705
Maximum annual debt service	70,827,000	70,827,000
Maximum annual debt service coverage	1.7	2.1

Fourth Quarter ending June 30, 2014

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance

Consolidated Balance Sheet (Unaudited)

At June 30, 2014

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	59,184,792
Current Portion AWUIL	25,028,568
Accounts Receivable (Net)	166,524,980
Other Receivables	44,832,880
Due From Affiliates	124
Due From Third Party Payors	(0)
Inventories	24,527,319
Prepaid Expense	6,310,892
	326,409,555
ASSETS WHOSE USE IS LIMITED	61,200,439
OTHER INVESTMENTS	587,274,223
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,639,069,493
Less Allowances for Depreciation	757,640,754
	881,428,739
OTHER ASSETS	
Pledges Receivable	3,656,370
Long Term Compensation Investment	22,536,324
Investments in Unconsolidated Subsidiaries	1,426,430
Land / Equipment Held for Resale	7,508,959
Assets Held for Expansion	13,284,006
Investments in Subsidiaries	(0)
Goodwill	156,709,485
Deferred Charges and Other	26,061,706
	231,183,279
TOTAL ASSETS	2,087,496,235
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	82,812,043
Accrued Salaries, Benefits, and PTO	72,368,503
Claims Payable	4,929,177
Accrued Interest	18,647,518
Due to Affiliates	0
Due to Third Party Payors	10,462,932
Current Portion of Long Term Debt	29,894,210
	219,114,383
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	11,229,829
Long Term Debt	1,076,099,170
Estimated Fair Value of Interest Rate Swaps	10,602,538
Deferred Income	1,362,811
Professional Liability Self-Insurance and Other	20,065,231
	1,119,359,578
TOTAL LIABILITIES	1,338,473,961
NET ASSETS	569,634,105
NONCONTROLLING INTERESTS IN SUBSIDIARIES	179,388,169
TOTAL LIABILITIES AND NET ASSETS	2,087,496,235

Mountain States Health Alliance

Statement of Revenue and Expense (Unaudited)

For the Period Ended June 30, 2014

TWELVE MONTHS YEAR TO DATE

	Actual
Revenue, Gains and Support	
Patient Service Revenue, Net of Contractual Allowances and Discounts	1,053,379,301
Provision for Bad Debt	(120,388,269)
Net Patient Service Revenue	932,991,032
Premium Revenue	10,682,764
Net Investment Gain	65,425,307
Net Derivative Gain	3,218,556
Other Revenue, Gains and Support	52,072,621
Total Revenue, Gains and Support	1,064,390,280
Expense	
Salaries and Wages	340,589,134
Provider Salaries	77,636,096
Contract Labor	4,282,340
Employee Benefits	69,298,183
Fees	116,019,476
Supplies	163,764,999
Utilities	17,072,249
Medical Costs	9,973,675
Other Expense	80,190,905
Loss on Extinguishment of LTD / Derivatives	4,622,060
Depreciation	69,436,735
Amortization	1,741,757
Interest & Taxes	44,354,682
Consolidation Allocation	0
Total Expenses	998,982,291
Excess of Revenue, Gains and Support over Expenses and Losses	65,407,989

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2014 - Fourth Quarter ending June 30, 2014
Historical Maximum Annual Debt Service Coverage

Calculation:	Fourth Quarter ending June 30, 2014	Twelve Months ending June 30, 2014
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 31,607,527	$ 34,751,769
Plus depreciation expense	11,832,248	69,436,737
Plus amortization expense	389,509	1,741,757
Plus interest expense	10,925,089	44,400,981
Subtotal	54,754,373	150,331,244
Annualized quarterly total income available for debt service	x 4	n/a
Total income available for debt service	219,017,492	150,331,244
Maximum annual debt service	70,804,000	70,804,000
Maximum annual debt service coverage	3.1	2.1

MOUNTAIN STATES
HEALTH ALLIANCE

Fiscal Year 2015
First Quarter ending September 30, 2014

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet (Unaudited)
At September 30, 2014

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	51,813,063
Current Portion AWUIL	3,742,881
Accounts Receivable (Net)	160,897,853
Other Receivables	37,048,436
Due From Affiliates	2,130
Due From Third Party Payors	(0)
Inventories	25,641,856
Prepaid Expense	8,040,432
	287,186,651
ASSETS WHOSE USE IS LIMITED	53,739,173
OTHER INVESTMENTS	590,088,596
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,648,718,208
Less Allowances for Depreciation	773,631,534
	875,086,673
OTHER ASSETS	
Pledges Receivable	3,344,315
Long Term Compensation Investment	23,544,007
Investments in Unconsolidated Subsidiaries	1,196,104
Land / Equipment Held for Resale	7,508,959
Assets Held for Expansion	13,314,006
Investments in Subsidiaries	0
Goodwill	156,608,494
Deferred Charges and Other	25,437,528
	230,953,413
TOTAL ASSETS	2,037,054,506
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	86,667,302
Accrued Salaries, Benefits, and PTO	51,372,395
Claims Payable	4,915,330
Accrued Interest	9,453,588
Due to Affiliates	(0)
Due to Third Party Payors	12,753,133
Current Portion of Long Term Debt	31,006,721
	196,168,468
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	11,337,511
Long Term Debt	1,052,372,136
Estimated Fair Value of Interest Rate Swaps	10,328,246
Deferred Income	14,095,374
Professional Liability Self-Insurance and Other	20,379,020
	1,108,512,286
TOTAL LIABILITIES	1,304,680,754
NET ASSETS	551,940,190
NONCONTROLLING INTERESTS IN SUBSIDIARIES	180,433,562
TOTAL LIABILITIES AND NET ASSETS	2,037,054,506

Mountain States Health Alliance

Statement of Revenue and Expense (Unaudited)

For the Period Ended September 30, 2014

THREE MONTHS YEAR TO DATE

	Actual
Revenue, Gains and Support	
Patient Service Revenue, Net of Contractual Allowances and Discounts	271,180,538
Provision for Bad Debt	(30,017,572)
Net Patient Service Revenue	241,162,965
Premium Revenue	5,507,322
Net Investment Gain	(6,100,738)
Net Derivative Gain	1,752,202
Other Revenue, Gains and Support	6,013,836
Total Revenue, Gains and Support	248,335,587
Expense	
Salaries and Wages	84,106,971
Provider Salaries	19,446,678
Contract Labor	1,523,287
Employee Benefits	15,598,994
Fees	28,535,746
Supplies	42,385,574
Utilities	4,697,635
Medical Costs	5,066,012
Other Expense	20,950,211
Loss on Extinguishment of LTD / Derivatives	-
Depreciation	16,853,152
Amortization	405,277
Interest & Taxes	11,092,737
Consolidation Allocation	-
Total Expenses	250,662,273
Excess of Revenue, Gains and Support over Expenses and Losses	(2,326,686)

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2015 - First Quarter ending Sept 30, 2014
Historical Maximum Annual Debt Service Coverage

Calculation:	First Quarter ending September 30, 2014	Twelve Months ending September 30, 2014
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 5,265,220	$ 35,798,359
Plus depreciation expense	16,853,152	67,005,685
Plus amortization expense	405,276	1,594,050
Plus interest expense	11,104,959	44,503,777
Subtotal	33,628,607	148,901,871
Annualized quarterly total income available for debt service	x 4	n/a
Total income available for debt service	134,514,428	148,901,871
Maximum annual debt service	67,252,000	67,252,000
Maximum annual debt service coverage	2.0	2.2

MOUNTAIN STATES HEALTH ALLIANCE

Fiscal Year 2015
Second Quarter ending December 31, 2014

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet (Unaudited)
At December 31, 2014

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	75,917,297
Current Portion AWUIL	21,343,233
Accounts Receivable (Net)	164,636,729
Other Receivables	30,394,689
Due From Affiliates	(0)
Due From Third Party Payors	(0)
Inventories	26,381,249
Prepaid Expense	7,442,748
	326,115,945
ASSETS WHOSE USE IS LIMITED	54,550,132
OTHER INVESTMENTS	587,217,484
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,638,495,196
Less Allowances for Depreciation	782,954,710
	855,540,486
OTHER ASSETS	
Pledges Receivable	3,320,065
Long Term Compensation Investment	24,342,806
Investments in Unconsolidated Subsidiaries	5,131,425
Land / Equipment Held for Resale	7,508,959
Assets Held for Expansion	13,344,006
Investments in Subsidiaries	0
Goodwill	156,602,310
Deferred Charges and Other	25,030,972
	235,280,541
TOTAL ASSETS	2,058,704,588
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	85,971,554
Accrued Salaries, Benefits, and PTO	55,967,615
Claims Payable	7,325,569
Accrued Interest	18,358,521
Due to Affiliates	22
Due to Third Party Payors	11,142,946
Current Portion of Long Term Debt	24,634,754
	203,400,982
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	11,786,311
Long Term Debt	1,052,239,157
Estimated Fair Value of Interest Rate Swaps	8,388,107
Deferred Income	24,469,405
Professional Liability Self-Insurance and Other	21,249,203
	1,118,132,182
TOTAL LIABILITIES	1,321,533,164
NET ASSETS	555,450,609
NONCONTROLLING INTERESTS IN SUBSIDIARIES	181,720,814
TOTAL LIABILITIES AND NET ASSETS	2,058,704,588

Mountain States Health Alliance
Statement of Revenue and Expense (Unaudited)
For the Period Ended December 31, 2014

SIX MONTHS YEAR TO DATE

	Actual
Revenue, Gains and Support	
Patient Service Revenue, Net of Contractual Allowances and Discounts	548,325,880
Provision for Bad Debt	(58,876,681)
Net Patient Service Revenue	489,449,200
Premium Revenue	11,326,369
Net Investment Gain	(9,342,493)
Net Derivative Gain	5,140,372
Other Revenue, Gains and Support	14,405,497
Total Revenue, Gains and Support	510,978,944
Expense	
Salaries and Wages	167,224,674
Provider Salaries	39,167,751
Contract Labor	2,833,258
Employee Benefits	34,500,734
Fees	57,512,860
Supplies	87,365,444
Utilities	8,649,766
Medical Costs	10,682,295
Other Expense	44,029,561
Loss on Extinguishment of LTD / Derivatives	0
Depreciation	33,837,702
Amortization	812,576
Interest & Taxes	22,165,123
Consolidation Allocation	1
Total Expenses	508,781,746
Excess of Revenue, Gains and Support over Expenses and Losses	2,197,198

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2015 - Second Quarter ending Dec. 31, 2014
Historical Maximum Annual Debt Service Coverage

Calculation:	Second Quarter ending December 31, 2014	Twelve Months ending December 31, 2014
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 11,362,660	$ 48,122,087
Plus depreciation expense	16,984,550	64,942,973
Plus amortization expense	407,299	1,601,076
Plus interest expense	11,082,686	44,282,126
Subtotal	39,837,195	158,948,262
Annualized quarterly total income available for debt service	x 4	n/a
Total income available for debt service	159,348,780	158,948,262
Maximum annual debt service	67,240,000	67,240,000
Maximum annual debt service coverage	2.4	2.4

Fiscal Year 2015
Third Quarter ending March 31, 2015

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Consolidated Balance Sheet (Unaudited)
At March 31, 2015

	Consolidated
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	66,697,783
Current Portion AWUIL	8,766,960
Accounts Receivable (Net)	177,184,581
Other Receivables	29,556,831
Due From Affiliates	3,607
Due From Third Party Payors	0
Inventories	26,595,071
Prepaid Expense	9,056,403
	317,861,237
ASSETS WHOSE USE IS LIMITED	53,472,246
OTHER INVESTMENTS	613,990,075
PROPERTY, PLANT AND EQUIPMENT	
Land, Buildings and Equipment	1,646,398,411
Less Allowances for Depreciation	799,540,545
	846,857,866
OTHER ASSETS	
Pledges Receivable	3,293,981
Long Term Compensation Investment	24,779,130
Investments in Unconsolidated Subsidiaries	5,150,938
Land / Equipment Held for Resale	7,508,959
Assets Held for Expansion	14,310,717
Investments in Subsidiaries	0
Goodwill	156,596,125
Deferred Charges and Other	24,677,269
	236,317,118
TOTAL ASSETS	2,068,498,542
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expense	86,782,632
Accrued Salaries, Benefits, and PTO	50,937,845
Claims Payable	7,076,164
Accrued Interest	9,380,091
Due to Affiliates	(0)
Due to Third Party Payors	13,390,443
Current Portion of Long Term Debt	24,332,448
	191,899,622
OTHER NON CURRENT LIABILITIES	
Long Term Compensation Payable	12,186,841
Long Term Debt	1,052,651,287
Estimated Fair Value of Interest Rate Swaps	3,594,920
Deferred Income	24,775,531
Professional Liability Self-Insurance and Other	22,078,311
	1,115,286,890
TOTAL LIABILITIES	1,307,186,512
NET ASSETS	574,094,938
NONCONTROLLING INTERESTS IN SUBSIDIARIES	187,217,092
TOTAL LIABILITIES AND NET ASSETS	2,068,498,542

Mountain States Health Alliance

Statement of Revenue and Expense (Unaudited)

For the Period Ended March 31, 2015

NINE MONTHS YEAR TO DATE

	Actual
Revenue, Gains and Support	
Patient Service Revenue, Net of Contractual Allowances and Discounts	840,390,491
Provision for Bad Debt	-100,375,420
Net Patient Service Revenue	740,015,071
Premium Revenue	21,492,711
Net Investment Gain	1,617,630
Net Derivative Gain	11,382,997
Other Revenue, Gains and Support	16,375,449
Total Revenue, Gains and Support	790,883,858
Expense	
Salaries and Wages	252,527,296
Provider Salaries	56,840,825
Contract Labor	4,316,492
Employee Benefits	54,797,727
Fees	88,105,565
Supplies	131,862,997
Utilities	12,634,273
Medical Costs	20,005,846
Other Expense	64,250,281
Loss on Extinguishment of LTD / Derivatives	0
Depreciation	50,634,568
Amortization	1,174,794
Interest & Taxes	32,931,495
Consolidation Allocation	1
Total Expenses	770,082,160
Excess of Revenue, Gains and Support over Expenses and Losses	20,801,698

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2015 - Third Quarter ending March 31, 2015
Historical Maximum Annual Debt Service Coverage

Calculation:	Third Quarter ending March 31, 2015	Twelve Months ending March 31, 2015
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 4,894,660	$ 53,130,067
Plus depreciation expense	16,796,866	62,466,816
Plus amortization expense	362,218	1,564,302
Plus interest expense	10,776,560	43,889,294
Subtotal	32,830,304	161,050,479
Annualized quarterly total income available for debt service	x 4	n/a
Total income available for debt service	131,321,216	161,050,479
Maximum annual debt service	67,246,000	67,246,000
Maximum annual debt service coverage	2.0	2.4

MOUNTAIN STATES HEALTH ALLIANCE

Fiscal Year 2015
Fourth Quarter ending June 30, 2015

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance

Comparative Balance Sheet (Unaudited)

As of June 30, 2015 and June 30, 2014

	June 30 2015	June 30 2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	79,713,574	59,184,792
Current Portion AWUIL	19,597,595	25,028,568
Accounts Receivable (Net)	162,379,523	161,318,003
Other Receivables	30,350,162	45,502,067
Due From Affiliates	-0	124
Due From Third Party Payors	-0	-0
Inventories	26,646,561	24,527,319
Prepaid Expense	7,322,824	6,310,892
	326,010,238	321,871,765
ASSETS WHOSE USE IS LIMITED	59,208,918	61,200,439
OTHER INVESTMENTS	635,332,874	587,274,223
PROPERTY, PLANT AND EQUIPMENT		
Land, Buildings and Equipment	1,662,193,378	1,639,069,493
Less Allowances for Depreciation	815,104,790	757,640,754
	847,088,588	881,428,739
OTHER ASSETS		
Pledges Receivable	3,260,254	3,656,370
Long Term Compensation Investment	25,284,264	22,536,324
Investments in Unconsolidated Subsidiaries	5,179,805	1,364,290
Land / Equipment Held for Resale	4,631,959	7,508,959
Assets Held for Expansion	14,684,441	13,284,006
Investments in Subsidiaries	0	-0
Goodwill	156,596,125	156,612,617
Deferred Charges and Other	24,754,992	25,841,391
	234,391,841	230,803,956
TOTAL ASSETS	2,102,032,459	2,082,579,122
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expense	90,259,474	81,879,383
Accrued Salaries, Benefits, and PTO	70,482,499	72,180,545
Claims Payable	8,167,693	5,247,746
Accrued Interest	18,159,055	18,647,518
Due to Affiliates	22	0
Due to Third Party Payors	5,484,417	10,462,932
Current Portion of Long Term Debt	40,286,349	30,617,770
	232,839,509	219,035,895
OTHER NON CURRENT LIABILITIES		
Long Term Compensation Payable	12,250,293	11,229,829
Long Term Debt	1,031,660,759	1,075,068,610
Estimated Fair Value of Interest Rate Swaps	7,643,937	10,602,538
Deferred Income	15,259,244	13,080,719
Professional Liability Self-Insurance and Other	19,632,236	20,619,965
	1,086,446,470	1,130,601,660
TOTAL LIABILITIES	1,319,285,979	1,349,637,555
NET ASSETS		
Restricted Net Assets	13,676,360	12,416,607
Unrestricted Net Assets	576,600,846	541,894,085
Noncontrolling Interests in Subsidiaries	192,469,274	178,630,875
	782,746,480	732,941,567
TOTAL LIABILITIES AND NET ASSETS	2,102,032,459	2,082,579,122

Mountain States Health Alliance

Statement of Revenue and Expense (Unaudited)

The quarters and fiscal years to date ended June 30, 2015 and June 30, 2014

	FY15 QTR 4	FY14 QTR 4	FY15 FYTD	FY14 FYTD
Revenue, Gains and Support				
Patient Service Revenue, Net of Contractual Allowances and Discounts	289,795,372	281,389,328	1,130,185,863	1,050,425,737
Provision for Bad Debt	-27,144,493	-41,547,073	-127,519,913	-122,641,682
Net Patient Service Revenue	262,650,879	239,842,254	1,002,665,950	927,784,055
Premium Revenue	10,691,293	4,922,706	32,184,004	10,682,764
Net Investment Gain	15,362,124	2,876,463	16,979,754	50,702,083
Net Derivative Gain	-2,563,842	2,404,275	8,819,155	3,218,556
Other Revenue, Gains and Support	4,970,810	22,672,266	21,346,260	56,826,952
Total Revenue, Gains and Support	291,111,264	272,717,964	1,081,995,122	1,049,214,410
Expense				
Salaries and Wages	92,652,303	90,583,320	345,179,598	340,589,134
Provider Salaries	20,501,384	20,049,577	77,342,209	77,636,096
Contract Labor	1,092,149	1,435,192	5,408,641	4,282,340
Employee Benefits	22,541,095	17,559,713	77,338,822	69,173,502
Fees	32,182,587	28,132,750	120,288,152	115,606,414
Supplies	44,177,145	41,634,341	176,040,142	163,698,766
Utilities	4,162,439	4,426,345	16,796,712	17,052,090
Medical Costs	11,918,777	4,887,012	31,924,623	10,292,244
Other Expense	17,620,554	17,597,906	81,870,835	79,979,992
Loss on Extinguishment of LTD / Derivatives	0	0	0	4,622,060
Depreciation	16,575,758	11,832,247	67,210,326	69,436,735
Amortization	382,197	389,509	1,556,991	1,741,757
Interest & Taxes	10,764,099	10,948,228	43,695,595	44,391,756
Consolidation Allocation	-0	0	1	0
Total Expenses	274,570,488	249,476,141	1,044,652,648	998,502,886
Excess of Revenue, Gains and Support over Expenses and Losses	16,540,776	23,241,823	37,342,474	50,711,524

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2015 - Fourth Quarter ending June 30, 2015
Historical Maximum Annual Debt Service Coverage

Calculation:	Fourth Quarter ending June 30, 2015	Twelve Months ending June 30, 2015
Income available for debt service		
Excess of revenue over expenses (before extraord. items)	$ 19,342,946	$ 40,865,486
Plus depreciation expense	16,575,758	67,210,326
Plus amortization expense	382,197	1,556,990
Plus interest expense	10,773,032	43,737,237
Subtotal	47,073,933	153,370,039
Annualized quarterly total income available for debt service	x 4	n/a
Total income available for debt service	188,295,732	153,370,039
Maximum annual debt service	67,254,000	67,254,000
Maximum annual debt service coverage	2.8	2.3

MOUNTAIN STATES
HEALTH ALLIANCE

Fiscal Year 2016
First Quarter ending September 30, 2015

Quarterly Financial Information
&
Historical Maximum Annual Debt Service Coverage Ratio

Consolidated & Unaudited

Mountain States Health Alliance
Comparative Balance Sheet

	Unaudited September 30 2015	*Audited* June 30 2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	77,172,729	79,713,574
Current Portion AWUIL	3,755,270	19,597,595
Accounts Receivable (Net)	170,905,175	162,255,802
Other Receivables	29,256,971	33,285,941
Due From Affiliates	(0)	(0)
Due From Third Party Payors	(0)	(0)
Inventories	27,702,635	26,646,561
Prepaid Expense	9,949,872	7,322,824
	318,742,652	328,822,296
ASSETS WHOSE USE IS LIMITED	38,804,166	52,470,955
OTHER INVESTMENTS	626,005,435	642,070,837
PROPERTY, PLANT AND EQUIPMENT		
Land, Buildings and Equipment	1,676,587,454	1,662,193,378
Less Allowances for Depreciation	831,337,710	815,104,790
	845,249,743	847,088,588
OTHER ASSETS		
Pledges Receivable	2,986,504	3,260,254
Long Term Compensation Investment	25,296,174	25,284,264
Investments in Unconsolidated Subsidiaries	5,505,881	5,179,805
Land / Equipment Held for Resale	4,631,959	4,631,959
Assets Held for Expansion	16,015,303	14,684,441
Investments in Subsidiaries	0	0
Goodwill	156,583,757	156,596,125
Deferred Charges and Other	24,394,375	24,754,992
	235,413,953	234,391,841
TOTAL ASSETS	2,064,215,950	2,104,844,518
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expense	109,709,678	92,133,309
Accrued Salaries, Benefits, and PTO	54,569,179	72,064,537
Claims Payable	8,358,409	8,167,693
Accrued Interest	9,132,413	18,159,055
Due to Affiliates	1,697	22
Due to Third Party Payors	6,628,528	4,781,320
Call Option Liability	0	0
Current Portion of Long Term Debt	40,571,801	40,286,349
	228,971,704	235,592,285
OTHER NON CURRENT LIABILITIES		
Long Term Compensation Payable	12,290,203	12,250,293
Long Term Debt	1,008,805,029	1,031,660,759
Estimated Fair Value of Interest Rate Swaps	(286,953)	2,540,682
Deferred Income	17,656,077	15,259,244
Professional Liability Self-Insurance and Other	19,596,387	19,635,356
	1,058,060,742	1,081,346,335
TOTAL LIABILITIES	1,287,032,447	1,316,938,620
NET ASSETS		
Restricted Net Assets	13,330,874	13,502,164
Unrestricted Net Assets	573,134,720	583,215,057
Noncontrolling Interests in Subsidiaries	190,717,909	191,188,677
	777,183,503	787,905,897
TOTAL LIABILITIES AND NET ASSETS	2,064,215,950	2,104,844,518

Mountain States Health Alliance

Statement of Revenue and Expense (Unaudited)

'he quarters and fiscal years to date ended September 30, 2015 and September 30, 2014

	FY16 QTR 1	FY15 QTR 1
Revenue, Gains and Support		
Patient Service Revenue, Net of Contractual Allowances and Discounts	287,186,003	268,400,739
Provision for Bad Debt	(35,555,253)	(30,017,572)
Net Patient Service Revenue	251,630,750	238,383,167
Premium Revenue	10,503,326	5,507,322
Net Investment Gain	(16,922,989)	(6,100,738)
Net Derivative Gain	4,314,779	1,752,202
Other Revenue, Gains and Support	7,945,659	6,013,836
Total Revenue, Gains and Support	257,471,526	245,555,789
Expense		
Salaries and Wages	89,330,105	84,106,971
Provider Salaries	19,932,317	19,446,678
Contract Labor	1,632,523	1,523,287
Employee Benefits	17,965,757	15,598,994
Fees	33,562,105	28,535,746
Supplies	44,106,802	42,385,574
Utilities	4,571,603	4,697,635
Medical Costs	5,515,113	2,286,214
Other Expense	23,015,390	20,950,211
Loss on Extinguishment of LTD / Derivatives	0	0
Depreciation	16,509,516	16,853,152
Amortization	382,703	405,277
Interest & Taxes	10,998,043	11,092,737
Consolidation Allocation	0	(0)
Total Expenses	267,521,976	247,882,475
Excess of Revenue, Gains and Support over Expenses and Losses	(10,050,450)	(2,326,686)

MOUNTAIN STATES HEALTH ALLIANCE (Consolidated)
UNAUDITED QUARTERLY DISCLOSURE - FY 2016 - First Quarter ending September 30, 2015
Historical Maximum Annual Debt Service Coverage

Calculation:		First Quarter ending September 30, 2015		Twelve Months ending September 30, 2015
Income available for debt service				
Excess of revenue over expenses (before extraord. items)	$	6,125,045	$	41,725,312
Plus depreciation expense	$	16,509,516	$	66,866,690
Plus amortization expense	$	382,703	$	1,534,417
Plus interest expense	$	10,998,043	$	43,630,321
Subtotal		34,015,307		153,756,740
Annualized quarterly total income available for debt service		x 4		n/a
Total income available for debt service		136,061,228		153,756,740
Maximum annual debt service		67,288,000		67,288,000
Maximum annual debt service coverage		2.0		2.3

Mountain States Health Alliance

Management Discussion For the Quarter Ended March 31, 2015 and Nine Months Fiscal Year to Date 2015

Volumes

Quarter ended March 31, 2015 versus quarter ended March 31, 2014

For the third quarter, strong volume growth continued even with higher than normal inclement winter weather:
Inpatient admissions were up 1,215 or 8.4%
Observation patients were down 241 or 4.1%.
Total “patients in a bed” were up 974 or 4.8%
Emergency room visits were up 3,960 or 6.8%
Urgent care visits were up 1,827 or 7.9%
Surgeries were up 236 or 2.7%

Fiscal Year to Date (Three Quarters)

Compared to the prior year fiscal year to date:
Inpatient admissions were up 3,989 or 9.5%
Observation patients were down 965 or 5.2%
Total “patients in a bed” were up 3,024 or 5.0%
Emergency room visits were up 12,675 or 7.1%
Urgent care visits were up 7,425 or 11.4%
Surgeries were up 1,597 or 6.2%

Statement of Revenue and Expenses

Quarter ended March 31, 2015 versus quarter ended March 31, 2014

Revenue

Net patient service revenue increased $17.6 million or 7.6% from the same quarter last year due to the volume increases listed above. Other revenue declined $7.7 million or 79.7% mainly due to an increase in minority interest related to the non-wholly owned hospitals. Premium revenue increased $5.5 million or 120.9% due to an increase in covered lives in the system owned health plan.

Expenses

Salaries and benefits increased $3.8 million or 3.2% as a result of the volume noted above. FTEs per AOB for the quarter declined from 4.33 to 4.27 due to a continued focus on daily labor management.
Supply cost as a % of net for the quarter increased slightly to 17.8% from 17.7% and is mainly due to the higher costs of specialty drugs.
Fees increased $1.0 million or 3.4% primarily due to an increase in physician fees.
Medical costs increased $5.1 million or 119% due to an increase in covered lives in the system owned health plan.

All other expenses increased $.4 million or 1.8% primarily due to an increase in maintenance contracts.
Interest expense declined by $.4 million or 3.5%.
Depreciation/Amortization expense declined by $2.5 million of 12.8%.

Operating EBITDA of $36.4 million was above the same quarter last year by $9.1 million or 33.1%.

Fiscal Year to Date (Three Quarters)

Net patient service revenue increased $52.1 million or 7.6% from the same quarter last year due to the volume increases listed above. **Other** revenue declined $17.8 million or 52.1% due mainly due an increase in minority interest related to the non-wholly owned hospitals and meaningful use dollars received in the prior year. **Premium** revenue increased $15.7 million or 273.1% due to an increase in covered lives in the system owned health plan.

Salaries and benefits (including contract labor) increased $6.4 million or 1.8% as a result of the volume noted above. FTEs per AOB of 4.36 declined from 4.54 for the prior fiscal year to date due to a continued focus on daily labor management.
Supply cost as a % of net for the fiscal year to date increase slightly to 17.8% from 17.7% in the prior fiscal year to date. The increase is mainly due to the higher costs of specialty drugs.
Fees increased $.6 million or 0.7% primarily due to an increase in physician fees.
Medical costs increased $14.6 million or 270.1% due to an increase in covered lives in the system owned health plan.
All other expenses increased $1.9 million or 2.5% primarily due to an increase in maintenance contracts.
Interest expense declined by $.5 million or 1.5%.
Depreciation/Amortization expense declined by $7.1 million or 12.1%.

Operating EBITDA of $103.1 million was above the same three quarters last year by $30.2 million or 41.5%.

Balance Sheet

The only significant changes were a result of the normal annual debt service payments. Other noteworthy items are: (1) increase in net accounts receivable of $15.9 million due to the increase in volume and increase in utilization of high deductible health plans resulting in an increase in patient liability and a longer collection cycle (2) decrease in the fair value of the interest rate swaps of $7.0 million and (3) increase in deferred income of $11.7 million. The deferred income is mainly related to investment earnings and will be included in earnings at the end of the fiscal year.

Statistics:

The following table contains historical utilization statistics and payor mix for the quarters and fiscal years to date ended March 31, 2015 and March 31, 2014.

	Q3 FY15	Q3 FY14	YTD FY15	YTD FY14
Admissions	15,753	14,538	46,182	42,193
Observation Patients	5,630	5,871	17,469	18,434
Patients in Bed	**21,383**	**20,409**	**63,651**	**60,627**
Patient Days	74,833	71,613	213,313	204,452
Average Length of Stay	4.75	4.93	4.62	4.85
Average Daily Census (incl. observation patients)	894	861	842	813
Emergency Room Visits	62,282	58,322	190,768	178,093
Urgent Care Visits	24,890	23,063	72,384	64,959
Inpatient Surgeries	2,842	2,660	8,453	8,162
Outpatient Surgeries	5,977	5,923	18,817	17,511
Total Surgical Cases	**8,819**	**8,583**	**27,270**	**25,673**
FTEs	7,077	6,949	7,012	7,015
FTEs per AOB	4.27	4.33	4.36	4.54

Payor Mix	**YTD FY15**	**YTD FY14**
Medicare	29.6%	32.0%
Managed Medicare	21.3%	19.7%
TennCare/Medicaid	14.1%	14.5%
Mangaged Care/Other	27.8%	26.1%
Self-Pay	7.2%	7.7%
	100.0%	100.0%

MOUNTAIN STATES HEALTH ALLIANCE

Management Discussion
For the Quarter Ended June 30, 2015
and Twelve Months Fiscal Year to Date 2015

Volumes

Quarter ended June 30, 2015 versus quarter ended June 30, 2014

For the fourth quarter, strong volume growth continued.
Inpatient admissions were up 1,020 or 6.9%
Observation patients were up 154 or 2.7%.
Total "patients in a bed" were up 1,174 or 5.7%
Emergency room visits were up 3,576 or 5.8%
Urgent care visits were up 1,695 or 8.7%
Surgeries were down 215 or 2.3%

Fiscal Year to Date (Four Quarters)

Compared to the prior year fiscal year to date:
Inpatient admissions were up 5,009 or 8.8%
Observation patients were down 811 or 3.3%
Total "patients in a bed" were up 4,198 or 5.2%
Emergency room visits were up 16,251 or 6.8%
Urgent care visits were up 9,120 or 10.8%
Surgeries were up 1,382 or 3.9%

Statement of Revenue and Expenses

Quarter ended June 30, 2015 versus quarter ended June 30, 2014

Revenue

Net patient service revenue increased $22.8 million or 9.5% from the same quarter last year due to the volume increases listed above. **Other** revenue declined $17.7 million or 78.1% mainly due to a decrease in Meaningful Use and an increase in minority interest related to the non-wholly owned hospitals**. Premium** revenue increased $5.8 million or 117.2% due to an increase in covered lives in the system owned health plan.

Expenses

Salaries and benefits increased $7.2 million or 5.5% as a result of increased medical and pharmacy claims and the volume noted above. FTEs per AOB for the quarter increased slightly from 4.34 to 4.37.
Supply cost as a % of net for the quarter decreased from 17.4% to 16.8%.

Fees increased $4.0 million or 14.4% primarily due to an increase in physician fees.
Medical costs increased $7.0 million or 143.9% due to an increase in covered lives in the system owned health plan.
All other expenses decreased $.2 million or 1.1% primarily due to a decrease in utilities.
Interest expense declined by $.2 million or 1.7%.
Depreciation/Amortization expense increased by $4.7 million or 38.8%.

Operating EBITDA of $42.7 million was below the same quarter last year by $10.5 million or 19.7% due mainly to a decrease in meaningful use.

Fiscal Year to Date (Four Quarters)

Net patient service revenue increased $74.9 million or 8.1% from the prior fiscal year due to the volume increases listed above. **Other** revenue declined $35.5 million or 62.4% due mainly to an increase in minority interest related to the non-wholly owned hospitals, meaningful use dollars and the Medicare Shared Savings received in the prior year. **Premium** revenue increased $21.5 million or 201.3% due to an increase in covered lives in the system owned health plan.

Salaries and benefits (including contract labor) increased $13.6 million or 2.8% as a result of increased medical and pharmacy claims and the volume noted above. FTEs per AOB of 4.36 declined from 4.49 for the prior fiscal year to date due to a continued focus on daily labor management.
Supply cost as a % of net for the fiscal year to date is equal to the prior fiscal year to date at 17.6%.
Fees increased $4.7 million or 4.0% primarily due to an increase in physician fees.
Medical costs increased $21.6 million or 210.2% due to an increase in covered lives in the system owned health plan.
All other expenses increased $1.6 million or 1.7% primarily due to an increase in maintenance contracts.
Interest expense declined by $.7 million or 1.6%.
Depreciation/Amortization expense declined by $2.4 million or 3.4%.

Operating EBITDA of $145.8 million was above the prior fiscal year by $19.8 million or 15.7%.

Balance Sheet

The only significant changes were a result of the normal annual debt service payments and an increase in cash and investments of 68.6 million due to improved operating results and market performance.

Statistics:

The following table contains historical utilization statistics and payor mix for the quarters and fiscal years to date ended June 30, 2015 and June 30, 2014.

	Q4 FY15	Q4 FY14	YTD FY15	YTD FY14
Admissions	15,867	14,847	62,049	57,040
Observation Patients	5,938	5,784	23,407	24,218
Patients in Bed	21,805	20,631	85,456	81,258
Patient Days	72,893	70,117	286,206	274,569
Average Length of Stay	4.59	4.72	4.61	4.81
Average Daily Census (incl. observation pa	866	834	848	819
Emergency Room Visits	65,089	61,513	255,857	239,606
Urgent Care Visits	21,265	19,570	93,649	84,529
Inpatient Surgeries	2,857	2,849	11,310	11,011
Outpatient Surgeries	6,370	6,593	25,187	24,104
Total Surgical Cases	9,227	9,442	36,497	35,115
FTEs	7,251	7,010	7,071	7,014
FTEs per AOB	4.37	4.34	4.36	4.49

Payor Mix	YTD FY15	YTD FY14
Medicare	29.3%	31.5%
Managed Medicare	21.7%	19.8%
TennCare/Medicaid	14.0%	14.4%
Managed Care/Other	27.9%	26.7%
Self Pay	7.1%	7.5%
	100.0%	100.0%

Exhibit 11.4

Attachment H

Mountain States - Rating Agencies Reports

Fitch Affirms Mountain States Health Alliance at 'BBB'; Outlook Stable Ratings

13 Mar 2009 4:01 PM (EDT)

Fitch Ratings-New York-13 March 2009: Fitch Ratings affirms the 'BBB' underlying rating on approximately $883 million of outstanding revenue bonds issued on behalf of Mountain States Health Alliance (MSHA). Additionally, Fitch affirms the 'BBB' rating on the hospital revenue bonds series 2008C, 2008D, and 2008E which were delayed in 2008 due to market conditions and will now be issued as series 2009A, 2009B, and 2009C. The bonds will be issued by the Johnson City Health and Educational Facilities Board (VA), Smyth County Industrial Development Authority (VA), and Washington County Industrial Development Authority (VA), respectively. The Rating Outlook is Stable.

The bonds will be issued as fixed-rate, unenhanced tax-exempt bonds, and the proceeds will be used to refund approximately $10 million of MSHA's series 2006C bonds and to fund a portion of the costs associated with the pending acquisition of Johnson Memorial Hospital (JMH). The bonds are expected to price the week of March 16, 2009.

The assignment and affirmation of the 'BBB' is supported by MSHA's leading market position, solid liquidity relative to expenses, and a history of financial stability. MSHA's acute inpatient market share in its 29 county service area (including JMH), encompassing northeast Tennessee, southwest Virginia, and southeast Kentucky, was 36.9% as of 2008. This compares favorably to MSHA's only major competitor's (Wellmont Health System; rated 'BBB+' by Fitch) 29.5% market share. As of Dec. 31, 2008, MSHA had $400 million of unrestricted cash and investments, equating to 196 days cash on hand, which compares favorably to Fitch's 'BBB' category median of 123.5 days. The unrestricted cash and investments are down from $466 million as of June 30, 2008 primarily due to $80 million in investment losses ($56 million of which is unrealized) and a $61 million collateral posting associated with the negative mark-to-market value of MSHA's swap portfolio through the first six months of fiscal 2009. The current investment allocation policy is being reevaluated with a likely result of a more conservative investment policy focusing on fixed-income assets (currently MSHA's long-term investments are 50% invested equities).

MSHA has been generating positive income from operations since fiscal 2003, averaging a 1.2% operating margin through fiscal 2008, as well as robust operating EBITDA margins during the period, averaging 15.4% annually. Through the six-month interim period, MSHA's operating margin is at negative 0.3% comparing favorably to the negative 1.8% margin of same period last year. Management attributes the improved operating performance to conservative recognition of revenue in the interim periods and expects to realize a year end margin of roughly 2%. The year-to-date operating EBITDA margin is healthy at 12.1%.

Credit concerns include MSHA's leveraged financial profile with significant variable rate debt exposure, sizable short-term capital commitments associated with JMH, an extensive derivative program, a high proportion of self-pay and Medicaid (7.3% and 15.3% of gross revenues, respectively), and high bad debt expense. While debt service coverage remains solid at 1.9 times (x) by EBITDA through Dec. 31, 2008, MSHA's Dec. 31, 2008 debt-to-capitalization and proforma MADS as percentage of revenue are very high at 83% and 6.7% compared to Fitch's 'BBB' category medians of 47.1% and 3.3%, respectively. The total amount committed to JMH is $132 million (see Fitch's Nov. 21, 2008 research report titled 'Mountain States Health Alliance, Tennessee - hosp rev bonds ser 2008C, D, & E' available on the Fitch web site at 'www.fitchratings.com'). Future debt plans are expected to be minimal, but MSHA plans to fund the remainder of its commitment to JMH through internal cash flow over the next 1.5 years, however, debt financing is still an option if market conditions improve markedly.

Historically, MSHA has utilized a sizable swap portfolio which, as of Jan. 31, 2009, has a negative mark-to-market value of $101.2 million on a notional amount $925.2 million. MSHA has been required to post collateral of $73.5 million as of March 1, 2009. In response to the recent volatility of the derivative markets, MSHA is reevaluating its derivative policies and intends to restructure its derivative portfolio over time as market conditions improve. Also of concern is MSHA's significant variable-rate exposure. Approximately two-thirds of the system's total debt is in the form of variable-rate bonds backed by a letter of credit from Regions Bank (rated 'A+/F1' with a Negative Outlook by Fitch) and a consortium of other lenders. Term-out provisions require that MSHA pay the letter of credit (LOC) bank within 367 days after payment is made on the LOC, which could affect MSHA's solid liquidity ratios leading to negative rating pressure.

The Stable Outlook is based on Fitch's expectation that MSHA's liquidity ratios (relative to expenses) will remain strong compared to the 'BBB' medians and that operating performance will remain stable. MSHA expects to generate $128 million in operating EBITDA for fiscal 2009 (16.4% operating EBITDA margin). Additionally, MSHA is at the end of its hospital acquisition program (although considerable capital spending is expected to continue) which should allow management to concentrate on integrating its newly acquired affiliates and improving its core operations.

Headquartered in Johnson City, Tennessee, MSHA is a large, integrated health care system with 14 hospitals (1,699 licensed beds) and other related entities, primarily serving Northeast Tennessee, Southwest Virginia, and two neighboring states. In fiscal year 2008, MSHA had total operating income of $756.3 million. MSHA covenants to provide annual and quarterly financial and operational disclosure to the nationally recognized municipal information securities repositories (NRMSIRSs).

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Fitch Withdraws Unenhanced Rtgs on Mountain State Health Alliance 2007B, 2008A, & 2008B Revs

Fitch Ratings-New York-05 October 2010: Fitch Ratings withdraws the 'BBB+/F2' enhanced ratings assigned to the Johnson City Health & Educational Facilities Board, TN hospital revenue bonds (Mountain States Health Alliance), series 2007B and series 2008A and the Russell County Industrial Development Authority, VA hospital revenue bonds (Mountain States Health Alliance), series 2008B (the bonds).

The withdrawal of the ratings is in connection with the Sept. 29, 2010 mandatory tender of all the outstanding bonds as a result of the letter of credit (LOC) substitutions. The Regions Bank LOCs supporting the bonds terminated following the mandatory tender. Fitch has not been asked to rate the bonds based on the substitute LOCs.

The long-term rating has been revised to reflect the underlying 'BBB' rating currently assigned to the bonds.

The remarketing of the Johnson City Health & Educational Facilities Board (TN) (Mountain States Health Alliance) hospital revenue bonds series 2007B does not affect its underlying ratings, according to Fitch.

With this remarketing this bond will receive new CUSIPs:

Johnson City Health & Educational Facilities Board 2007B
478271HK8 (original)

Johnson City Health & Educational Facilities Board 2007B-1
478271JK6 (remarketed)

Johnson City Health & Educational Facilities Board 2007B-2
478271JL4 (remarketed)

Johnson City Health & Educational Facilities Board 2007B-3
478271JM2 (remarketed)

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Applicable Criteria and Related Research:
--'U.S. Municipal Structured Finance Rating Criteria', Aug. 16, 2010;
--'Rating Guidelines for Letter of Credit-Supported Bonds', April 29, 2009.

Applicable Criteria and Related Research:
U.S. Municipal Structured Finance Rating Criteria
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548588)
Rating Guidelines for Letter of Credit-Supported Bonds
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=435132)

'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.

ENDORSEMENT POLICY - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (https://www.fitchratings.com/regulatory) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Fitch Upgrades Mountain States Health Alliance bonds to 'BBB+' from 'BBB'; Outlook Stable

Ratings
15 Dec 2010 11:45 AM (EST)

Fitch Ratings-New York-15 December 2010: Fitch Ratings has upgraded the rating on Mountain States Health Alliance's (MSHA) outstanding debt to 'BBB+' from 'BBB'. The Rating Outlook is Stable. MSHA has approximately $1 billion of total outstanding debt with an underlying debt mix of 64% fixed-rate and 36% variable-rate demand bonds (supported by letters of credit).

SECURITY:
MSHA has granted a security interest in its pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain debt.

RATING RATIONALE:
--The rating upgrade is due to MSHA's strong market position, consistent exceptional operating cash flow margins, and solid days cash on hand.
--MSHA's market position has strengthened over the last two years due to MSHA's acquisition activity, with minimal activity expected in the near future as MSHA continues to integrate the newer facilities into the system.
--MSHA has been significantly investing in its plant with three new replacement facilities and an expansion at its flagship facility, Johnson City Medical Center (JCMC), and capital needs are expected to moderate in the next three to four years.
--MSHA has also reduced the risk in its debt and investment portfolio since 2008.
--The main credit concerns continue to be MSHA's high debt burden, which management has committed to reduce once it reaches their days cash on hand target of 250 (231.5 as of Sept. 30, 2010).

KEY RATING DRIVERS:
--Maintenance of strong operating cash flow and liquidity.
--Upward movement of the rating would be dependent on MSHA reducing its debt burden while maintaining its strong operating cash flow and liquidity position.
--Negative rating pressure would occur if MSHA's financial profile deteriorates.

CREDIT SUMMARY:
The rating upgrade is due to MSHA's strong market position, consistent exceptional cash flow margins, and solid days cash on hand. MSHA was formed in 1998 from the acquisition of five hospitals in Tennessee from Columbia/HCA. Since that time, MSHA has grown to a 14-hospital system through several acquisitions from 2005-2009, which has extended MSHA's service area to Virginia. Management indicated that there are no future acquisitions planned, especially since there are limited sole providers remaining in the service area. MSHA's acute inpatient market share in its 29-county service area was 36.5% in 2009, which compares favorably to MSHA's only major competitor's (Wellmont Health System; rated 'BBB+' by Fitch) 29.5% market share.

MSHA has been investing significantly in its plant, which has totaled approximately 2 times (x) depreciation expense in fiscal 2009 and 2010. Major capital projects include three new replacement hospitals and an expansion of surgical space at the flagship facility. In July 2010, a new 80-bed facility opened (Franklin Woods Community Hospital), which replaced two of MSHA's existing facilities, North Side Hospital and Johnson City Specialty Hospital. The construction was under budget and the new hospital is expected to improve efficiency as a result of the consolidation of services on one campus and better location. The two other replacement facilities are for Johnston Memorial Hospital and Smyth County Community Hospital, which are expected to be completed by May 2011 and November 2011, respectively. MSHA's flagship facility, JCMC, will expand its surgical space with the construction of 16 new surgery suites (by 2013). A portion of this project is expected to be funded by $45 million of additional debt in fiscal 2012. The high intensity of capital spending is expected through fiscal 2012 with capital commitments of $99 million in fiscal 2011 and $110 million in fiscal 2012, and is then expected to return to more moderate levels of approximately $70 million-$80 million a year. The main source of funding will be operating cash flow except for $15 million of unspent bond proceeds and $45 million of additional debt expected in fiscal 2012. Management's projections include rebuilding the balance sheet to 250 days cash on hand beginning in fiscal 2012.

As of Sept. 30, 2010 MSHA had $554 million of unrestricted cash and investments, equating to a solid 231.5 days cash on hand, which compares very favorably to Fitch's 'BBB' category median of 122.2 days. Management's target is to maintain approximately 250 days cash on hand and any excess cash flow generated will be used to reduce its debt. MSHA's investment policy was revised in June 2010 and is conservative. The revised policy has allocated at least 110 days cash on hand in highly liquid fixed-income securities, and investments over the 110-day threshold would be invested in no more than 50% equities. Cash-to-debt of 53.6% at Sept. 30, 2010 compares unfavorably to the 'BBB' category median of 75.9% and is reflective of MSHA's sizeable debt load.

MSHA's operating performance in fiscal 2010 has shown improvement despite approximately $6 million of accelerated depreciation expense. The operating margin improved to 1.7% compared to 0.8% in fiscal 2009 and 0.6% in fiscal 2008. Operating cash flow has consistently been outstanding and is one of the highest in Fitch's portfolio with a 14.8% annual average operating cash flow margin over the last five years compared to the 'BBB' category median of 8.7%. For the interim period (three months ended Sept. 30, 2010), operating performance is ahead of the prior year. Management expects further opportunity for improvement as the Virginia facilities become better integrated into the system in addition to its initiatives related to health care reform.

Fitch's main credit concern is MSHA's sizeable debt load and fairly aggressive capital structure. Despite MSHA's strong operating cash flow, debt service coverage is adequate at 2.2x by EBITDA for fiscal 2010 compared to 1.8x in fiscal 2009 and Fitch's 'BBB' median of 2.5x. The only future new money debt plans include $45 million in fiscal 2012, which has been factored into this rating action. Fitch expects MSHA to grow into its debt burden due to limited near-term acquisition activity, moderation of capital spending, and continued strong operating cash flow that should allow for liquidity growth and subsequently the paydown of some debt. Management has stated its intent to reduce its debt load and did pay off an additional $12 million in capital leases and other debt in fiscal 2010.

MSHA's total outstanding debt is approximately $1 billion with $667 million underlying fixed-rate and $375 million variable-rate demand obligations (VRDOs). The letters of credit (LOC) were successfully replaced in 2010 with three new banks and the agreements contained better covenants. The current LOCs expire in 2013 and the term-out provision under the agreements is three years. MSHA's outstanding swap portfolio includes a $132 million fixed payor swap, $438 million of basis swaps, and a $224 million swaption. The total mark-to-market value of the portfolio was negative $29.895 million as of Nov. 12, 2010 and MSHA was posting $5.1 million of collateral (not including the swaption that has a related guaranteed investment contract [GIC] of approximately $89 million). Management intends to terminate some or all of its fixed payor swaps when market conditions permit and the swaption is expected to terminate in July 2011 when MSHA has the right to terminate, which would result in the release of the GIC. Fitch views MSHA's capital structure as fairly aggressive especially for the rating level; however, Fitch believes its liquidity position as well as strong management and board oversight mitigates this risk.

MSHA recently adopted a new strategic plan that includes the development of an accountable care organization (ACO) to improve the delivery of care. Fitch views MSHA's progress in the ACO strategy favorably, and believes it should lead to lower costs and improved quality of care. MSHA has an integrated network identified and has been participating in various pilot programs (e.g. Premier). Mountain States Medical Group is a key part of the strategy and the number of employed physicians currently totals 230 and is expected to increase further.

The Stable Outlook is based on Fitch's expectation that MSHA will continue to generate strong operating cash flow to service its debt load and capital needs. Fitch expects that over time MSHA will continue to grow its liquidity, which should allow MSHA to reduce its leverage.

Headquartered in Johnson City, Tennessee, MSHA is a large regional health care system with 14 hospitals (1,789 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a ranging membership interest (50.1%-80%) in three of the most recent additions to the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In fiscal 2010, MSHA had total operating revenue of $944 million. MSHA covenants to provide annual and quarterly financial and operational disclosure to the nationally recognized municipal information securities repositories (NRMSIRS).

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Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria', dated Oct. 8, 2010
--'Nonprofit Hospitals and Health Systems Rating Criteria', dated Dec. 29, 2009.

For information on Build America Bonds, visit 'www.fitchratings.com/BABs'.

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria
Nonprofit Hospitals and Health Systems Rating Criteria

Fitch Upgrades Mountain States Health Alliance bonds to 'BBB+' from 'BBB'; Outlook Stable

Fitch Ratings-New York-15 December 2010: Fitch Ratings has upgraded the rating on Mountain States Health Alliance's (MSHA) outstanding debt to 'BBB+' from 'BBB'. The Rating Outlook is Stable. MSHA has approximately $1 billion of total outstanding debt with an underlying debt mix of 64% fixed-rate and 36% variable-rate demand bonds (supported by letters of credit).

SECURITY:
MSHA has granted a security interest in its pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain debt.

RATING RATIONALE:
--The rating upgrade is due to MSHA's strong market position, consistent exceptional operating cash flow margins, and solid days cash on hand.
--MSHA's market position has strengthened over the last two years due to MSHA's acquisition activity, with minimal activity expected in the near future as MSHA continues to integrate the newer facilities into the system.
--MSHA has been significantly investing in its plant with three new replacement facilities and an expansion at its flagship facility, Johnson City Medical Center (JCMC), and capital needs are expected to moderate in the next three to four years.
--MSHA has also reduced the risk in its debt and investment portfolio since 2008.
--The main credit concerns continue to be MSHA's high debt burden, which management has committed to reduce once it reaches their days cash on hand target of 250 (231.5 as of Sept. 30, 2010).

KEY RATING DRIVERS:
--Maintenance of strong operating cash flow and liquidity.
--Upward movement of the rating would be dependent on MSHA reducing its debt burden while maintaining its strong operating cash flow and liquidity position.
--Negative rating pressure would occur if MSHA's financial profile deteriorates.

CREDIT SUMMARY:
The rating upgrade is due to MSHA's strong market position, consistent exceptional cash flow margins,

and solid days cash on hand. MSHA was formed in 1998 from the acquisition of five hospitals in Tennessee from Columbia/HCA. Since that time, MSHA has grown to a 14-hospital system through several acquisitions from 2005-2009, which has extended MSHA's service area to Virginia. Management indicated that there are no future acquisitions planned, especially since there are limited sole providers remaining in the service area. MSHA's acute inpatient market share in its 29-county service area was 36.5% in 2009, which compares favorably to MSHA's only major competitor's (Wellmont Health System; rated 'BBB+' by Fitch) 29.5% market share.

MSHA has been investing significantly in its plant, which has totaled approximately 2 times (x) depreciation expense in fiscal 2009 and 2010. Major capital projects include three new replacement hospitals and an expansion of surgical space at the flagship facility. In July 2010, a new 80-bed facility opened (Franklin Woods Community Hospital), which replaced two of MSHA's existing facilities, North Side Hospital and Johnson City Specialty Hospital. The construction was under budget and the new hospital is expected to improve efficiency as a result of the consolidation of services on one campus and better location. The two other replacement facilities are for Johnston Memorial Hospital and Smyth County Community Hospital, which are expected to be completed by May 2011 and November 2011, respectively. MSHA's flagship facility, JCMC, will expand its surgical space with the construction of 16 new surgery suites (by 2013). A portion of this project is expected to be funded by $45 million of additional debt in fiscal 2012. The high intensity of capital spending is expected through fiscal 2012 with capital commitments of $99 million in fiscal 2011 and $110 million in fiscal 2012, and is then expected to return to more moderate levels of approximately $70 million-$80 million a year. The main source of funding will be operating cash flow except for $15 million of unspent bond proceeds and $45 million of additional debt expected in fiscal 2012. Management's projections include rebuilding the balance sheet to 250 days cash on hand beginning in fiscal 2012.

As of Sept. 30, 2010 MSHA had $554 million of unrestricted cash and investments, equating to a solid 231.5 days cash on hand, which compares very favorably to Fitch's 'BBB' category median of 122.2 days. Management's target is to maintain approximately 250 days cash on hand and any excess cash flow generated will be used to reduce its debt. MSHA's investment policy was revised in June 2010 and is conservative. The revised policy has allocated at least 110 days cash on hand in highly liquid fixed-income securities, and investments over the 110-day threshold would be invested in no more than 50% equities. Cash-to-debt of 53.6% at Sept. 30, 2010 compares unfavorably to the 'BBB' category median of 75.9% and is reflective of MSHA's sizeable debt load.

MSHA's operating performance in fiscal 2010 has shown improvement despite approximately $6 million of accelerated depreciation expense. The operating margin improved to 1.7% compared to 0.8% in fiscal 2009 and 0.6% in fiscal 2008. Operating cash flow has consistently been outstanding and is one of the highest in Fitch's portfolio with a 14.8% annual average operating cash flow margin over the last five years compared to the 'BBB' category median of 8.7%. For the interim period (three months ended Sept. 30, 2010), operating performance is ahead of the prior year. Management expects further opportunity for improvement as the Virginia facilities become better integrated into the system in addition to its initiatives related to health care reform.

Fitch's main credit concern is MSHA's sizeable debt load and fairly aggressive capital structure. Despite MSHA's strong operating cash flow, debt service coverage is adequate at 2.2x by EBITDA for fiscal 2010 compared to 1.8x in fiscal 2009 and Fitch's 'BBB' median of 2.5x. The only future new money debt plans include $45 million in fiscal 2012, which has been factored into this rating action. Fitch expects MSHA to grow into its debt burden due to limited near-term acquisition activity, moderation of capital spending, and continued strong operating cash flow that should allow for liquidity growth and subsequently the paydown of some debt. Management has stated its intent to reduce its debt load and did pay off an additional $12 million in capital leases and other debt in fiscal 2010.

MSHA's total outstanding debt is approximately $1 billion with $667 million underlying fixed-rate and $375 million variable-rate demand obligations (VRDOs). The letters of credit (LOC) were successfully replaced in 2010 with three new banks and the agreements contained better covenants. The current LOCs expire in 2013 and the term-out provision under the agreements is three years. MSHA's outstanding swap portfolio includes a $132 million fixed payor swap, $438 million of basis swaps, and a $224 million swaption. The total mark-to-market value of the portfolio was negative $29.895 million as of Nov. 12, 2010 and MSHA was posting $5.1 million of collateral (not including the swaption that has a related guaranteed investment contract [GIC] of approximately $89 million). Management intends to terminate some or all of its fixed payor swaps when market conditions permit and the swaption is expected to terminate in July 2011 when MSHA has the right to terminate, which would result in the release of the GIC. Fitch views MSHA's capital structure as fairly aggressive especially for the rating level; however, Fitch believes its liquidity position as well as strong management and board oversight mitigates this risk.

MSHA recently adopted a new strategic plan that includes the development of an accountable care organization (ACO) to improve the delivery of care. Fitch views MSHA's progress in the ACO strategy favorably, and believes it should lead to lower costs and improved quality of care. MSHA has an integrated network identified and has been participating in various pilot programs (e.g. Premier). Mountain States Medical Group is a key part of the strategy and the number of employed physicians currently totals 230 and is expected to increase further.

The Stable Outlook is based on Fitch's expectation that MSHA will continue to generate strong operating cash flow to service its debt load and capital needs. Fitch expects that over time MSHA will continue to grow its liquidity, which should allow MSHA to reduce its leverage.

Headquartered in Johnson City, Tennessee, MSHA is a large regional health care system with 14 hospitals (1,789 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a ranging membership interest (50.1%-80%) in three of the most recent additions to the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In fiscal 2010, MSHA had total operating revenue of $944 million. MSHA covenants to provide annual and quarterly financial and operational disclosure to the nationally recognized municipal information securities repositories (NRMSIRS).

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Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria', dated Oct. 8, 2010
--'Nonprofit Hospitals and Health Systems Rating Criteria', dated Dec. 29, 2009.

For information on Build America Bonds, visit 'www.fitchratings.com/BABs'.

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564565)
Nonprofit Hospitals and Health Systems Rating Criteria

(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493186)

Fitch Ratings

Fitch Withdraws Underlying Rating on Mountain States Health Alliance, TN VRDBs

Fitch Ratings-New York-08 June 2011: Fitch Ratings withdraws the 'BBB+' unenhanced rating on the following variable rate demand bonds (VRDBs) issued on behalf of Mountain States Health Alliance, TN (Mountain States):

--Johnson City Health & Educational Facilities Board (TN) hospital revenue bonds series 2007B-1, 2007B-2, 2007B-3, and 2008A;
--Russell County Industrial Development Authority (VA) hospital revenue bonds series 2008B.

Fitch was not asked to provide ratings based on the letters of credit supporting these issues, and their unenhanced ratings are not considered by Fitch to be relevant to the agency's coverage of Mountain States.

Fitch's underlying rating for Mountain States' parity obligations remains 'BBB+' with a Stable Rating Outlook.

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Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria', dated Oct. 8, 2010;
--'Nonprofit Hospitals and Health Systems Rating Criteria', dated Dec. 29, 2009.

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564565)
Nonprofit Hospitals and Health Systems Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493186)

Fitch Affirms Mountain States Health Alliance (Tennessee) Revs at 'BBB+'; Outlook Stable

Fitch Ratings-New York-13 December 2011: Fitch Ratings affirms the 'BBB+' rating on Mountain States Health Alliance's (MSHA) outstanding debt, which is listed below.

The Rating Outlook is Stable.

SECURITY:
Pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain debt.

KEY RATING DRIVERS:
STRONG MARKET FOOTPRINT: MSHA is a 14-hospital system that covers a 29-county service area with a leading market position.
CONSISTENT STRONG OPERATING CASH FLOW: MSHA maintains excellent operating cash flow margins, which well exceed the median ratio for its rating level.
HIGH DEBT BURDEN: MSHA's high debt burden remains Fitch's main credit concern. Despite strong operating performance, debt service coverage is adequate for the rating level.
MODERATED CAPITAL SPENDING: After several years of heavy capital investment, a moderation in capital spending is expected beginning in fiscal 2013, which should facilitate further liquidity growth.

CREDIT PROFILE:
The rating affirmation reflects MSHA's continued solid financial performance. Good financial performance has been driven by MSHA's strong market position and focus on cost efficiencies. Upward movement of the rating is limited by its heavy debt burden.

MSHA was formed in 1998 from the acquisition of five hospitals in Tennessee from Columbia/HCA. Since that time, MSHA has grown to a 14-hospital system through several acquisitions from 2005-2009, which has extended MSHA's service area to Virginia. Management indicated that there are no future hospital acquisitions planned, especially since there are limited sole providers remaining in the service area. MSHA's acute inpatient market share in its 29-county service area was 36.8% in 2010, which compares favorably to MSHA's only major competitor's (Wellmont Health System; rated 'BBB+' by Fitch) 30.1% market share.

MSHA's operating performance in fiscal 2011 was in line with last year with an operating margin of 1.9% compared to 1.7% the prior year. Operating cash flow has consistently been outstanding and is one of the highest in Fitch's portfolio with a 15.7% operating EBITDA margin in fiscal 2011 compared to the 'BBB' category median of 8.5%. For the interim period (three months ended Sept. 30, 2011), operating performance is ahead of the prior year and the fiscal 2012 budget includes a 2.1% operating margin.

Solid operating performance has been driven by good volume and management's continued focus on cost initiatives, which include Lean practices. Management has been diligent in eliminating duplicative services and consolidating activities with the growth of the system. Management expects more opportunities for cost reductions as the Virginia facilities are further integrated into the system and brought onto a common information technology platform over the next several years.

As of Sept. 30, 2011 MSHA had $514 million of unrestricted cash and investments, equating to a solid 208 days cash on hand, which compares very favorably to Fitch's 'BBB' category median of 128.6 days, although this is down from historical levels due to investment performance. Through the three months ended Sept. 30, 2011, MSHA had $14 million of unrealized losses on investments.

MSHA's investment policy was revised in June 2010 and is conservative. The revised policy has allocated at least 110 days cash on hand in highly liquid fixed-income securities, and investments over the 110-day threshold would be invested in no more than 50% equities.

Cash-to-debt of 50% at Sept. 30, 2011 compares unfavorably to the 'BBB' category median of 79.8% and is reflective of MSHA's sizeable debt load. Management's target is to maintain approximately 250 days cash on hand and any excess cash flow generated will be used to reduce its debt.

Liquidity growth should be aided by a moderation of capital spending. MSHA has been investing significantly in its plant, which totaled approximately 2 times (x) depreciation expense the last three fiscal years. Major capital projects include three new replacement hospitals and an expansion of surgical space at the flagship facility.

Johnston Memorial Hospital's replacement facility opened in July 2011 and was completed within budget. The replacement facility for Smyth County Community Hospital is expected to open in spring 2012. The remaining major capital project is the expansion of surgical space (16 new surgery suites) at MSHA's flagship facility, Johnson City Medical Center. This project is expected to cost $69 million and a portion will be funded by approximately $45 million of additional debt sometime in calendar year 2012.

The high intensity of capital spending is expected to drop after fiscal 2012 with capital commitments of $133 million in fiscal 2012, $114 million in fiscal 2013 and $70 million-$80 million a year thereafter, compared to $173 million in fiscal 2011 and $172 million in fiscal 2010.

Fitch's main credit concern is MSHA's sizeable debt load and fairly aggressive capital structure. Despite MSHA's strong operating cash flow, maximum annual debt service (MADS) coverage is adequate at 2x by operating EBITDA for fiscal 2011 compared to 1.8x in fiscal 2010 and Fitch's 'BBB' median of 2.3x. The only future new money debt plans include $45 million in fiscal 2013, which should not impact MSHA's current rating level.

Fitch expects MSHA to grow into its debt burden due to limited near-term acquisition activity, moderation of capital spending, and continued strong operating cash flow that should allow for liquidity growth and subsequently the paydown of some debt.

MSHA's total outstanding debt is approximately $1.1 billion with $631.7 million underlying fixed-rate and $484.2 million underlying variable-rate debt. Of the $484.2 million of variable-rate debt, $434.7 million are letter of credit (LOC) backed variable-rate demand obligations (VRDOs). The remaining variable-rate exposure is a five-year direct bank loan with SunTrust Bank.

Fitch views MSHA's debt profile as aggressive for its rating level due to its exposure to interest rate, put, remarketing, and renewal risk. All the LOCs (US Bank, PNC Bank, Mizuho Bank) expire on Oct. 19, 2014 and the term-out provision under the agreements is three years. However, unrestricted cash and investments to putable debt was 1.2x as of Sept. 30, 2011 and the investments are liquid with 96% available within three days.

MSHA reduced its swap exposure with the termination of a swaption in October 2011 and also converted all of its fixed payor swaps to basis swaps, which should result in less mark-to-market volatility. As of Sept. 30, 2011, MSHA posted $5.8 million of collateral.

One of MSHA's strategies includes being an accountable care organization (ACO) to improve the delivery of care. MSHA's ACO contracting entity, Integrated Solutions Health Network, is in place and will be ready to begin contracting with the federal government in July 2012. Management expects the ACO to facilitate the transformation of care, which should lead to lower costs and improved quality. Mountain States Medical Group is a key part of the strategy and the number of employed physicians currently totals 400 and is expected to increase further.

The Stable Outlook is based on Fitch's expectation that MSHA will continue to generate strong operating cash flow to service its debt load and capital needs. Fitch expects that over time MSHA will continue to grow its liquidity due to a moderation of capital spending, which should allow MSHA to reduce its leverage. Positive rating movement would be dependent on an improvement in debt metrics.

Headquartered in Johnson City, Tennessee, MSHA is a large regional health care system with 14 hospitals (1,789 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a ranging membership interest (50.1%-80%) in three of the hospitals in the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In fiscal 2011, MSHA had total operating revenue of $976 million. MSHA covenants to provide annual and quarterly financial and operational disclosure to the nationally recognized municipal information securities repositories (NRMSIRS).

Outstanding debt:
--$30,358,000 The Health and Educational Facilities Board of the City of Johnson City, Tennessee, hospital first mortgage revenue refunding bonds, series 2000A;
--$34,325,000 The Health and Educational Facilities Board of the City of Johnson City, Tennessee, hospital first mortgage revenue bonds, series 2000C;
--$14,790,000 Mountain States Health Alliance taxable note, series 2000D;
--$23,100,000 The Health and Educational Facilities Board of the City of Johnson City, Tennessee, hospital first mortgage revenue bonds, series 2001A;
--$169,630,000 The Health and Educational Facilities Board of the City of Johnson City, Tennessee, hospital first mortgage revenue bonds, series 2006A;
--$5,560,000 The Health and Educational Facilities Board of the City of Johnson City, Tennessee, hospital revenue bonds, series 2009A;
--$5,535,000 Industrial Development Authority of Smyth County hospital revenue bonds, series 2009B;
--$115,955,000 Industrial Development Authority of Washington County Virginia, hospital revenue bonds, series 2009C.

Fitch Ratings has withdrawn its rating on the following bonds due to prerefunding activity:

--Johnson City Health & Educational Facilities Board (TN) (Mountain States Health Alliance) Hospital first mortgage revenue refunding bonds, series 2000B (insured: MBIA Insurance Corp.) (all maturities).

The correct rating history for the prerefunded CUSIPs is now reflected on Fitch's web site at 'www.fitchratings.com'.

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Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria', dated June 20, 2011;
--'Nonprofit Hospitals and Health Systems Rating Criteria', dated Aug. 12, 2011.

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130)
Nonprofit Hospitals and Health Systems Rating Criteria
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648836)

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Fitch Rates Mountain States Health Alliance, TN 2012 Revs 'BBB+'; Affirms Outstanding

Fitch Ratings-New York-14 August 2012: Fitch Ratings assigns a 'BBB+' to the following bonds expected to be issued on behalf of Mountain States Health Alliance (MSHA):

--$54,900,000 The Health and Educational Facilities Board of the City of Johnson City, TN hospital revenue bonds, series 2012A;
--$30,230,000 The Health and Educational Facilities Board of the City of Johnson City, TN hospital revenue bonds, series 2012B;
--$9,785,000 Industrial Development Authority of Wise County, VA hospital revenue bonds, series 2012C.

In addition, Fitch affirms the 'BBB+' rating on MSHA's outstanding debt, which is listed at the bottom of this press release. Some of those ratings are underlying ratings. The Rating Outlook is Stable.

The 2012A bonds are expected to be issued as tax-exempt fixed-rate bonds and the series 2012B and 2012C bonds are expected to be issued as tax-exempt variable rate demand bonds. The 'BBB+' ratings on the series 2012B and 2012C bonds are underlying ratings, and Fitch expects to rate the 2012B and C bonds based on the letter of credit (LOC) support closer to the time of issuance. The 2012A bonds are expected to sell via negotiation the week of Aug. 20.

Proceeds from the series 2012 bonds will be used to fund the expansion of surgical suites at Johnson City Medical Center, fund projects at Norton Community Hospital (VA), reimburse MSHA for prior capital expenditures, and pay the cost of issuance. Maximum annual debt service (MADS), which was provided by the underwriter, increases to $77.2 million from $76.3 million. After issuance, MSHA will have approximately $1.17 billion in outstanding debt, with 57% fixed rate and 43% variable.

SECURITY
The bonds are secured by pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain series of MSHA debt, but that is not expected for the series 2012 bonds.

KEY RATING DRIVERS

SOLID MARKET FOOTPRINT: MSHA is a 13-hospital system with a leading market position in a sizable 29 county service area.

CONSISTENTLY STRONG OPERATING CASH FLOW: MSHA maintains excellent operating cash flow margins that well exceed the median ratio for its rating level.

HIGH DEBT BURDEN: MSHA's high debt burden remains Fitch's main credit concern. Despite strong operating cash flow, debt service coverage is adequate for the rating level.

CAPITAL SPENDING TO SLOW: MSHA is nearing the end of a cycle of significant capital spending. The last large project remaining is a $69 million expansion of the operating room suites at Johnson City Medical Center. Bond proceeds of $55 million from the 2012 debt issuance, along with a cash contribution by MSHA, will pay for the expansion. There is a sizeable reduction in projected capital spending for fiscal 2014-2017, which should facilitate liquidity growth.

CREDIT PROFILE

Headquartered in Johnson City, Tennessee, MSHA was formed in 1998 from the acquisition of five hospitals in Tennessee from Columbia/HCA and has grown into a large regional health care system with 13 hospitals (1,623 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a membership interest (ranging from 50.1%-80%) in three of the hospitals in the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In fiscal 2012 (June 30 year end; unaudited), MSHA had total operating revenue of $996 million.

The rating affirmation reflects MSHA's continued sound operating performance. Unaudited fiscal 2012 results show a 1% operating margin, which was lower than last year's 1.9% operating margin. Operating cash flow remained very strong with a 13.2% operating EBITDA margin compared to the 'BBB' category median of 8.5%. While overall inpatient volumes held steady, the slightly lower operating performance partially reflects a shift of inpatient admissions away from surgical admissions, which affected budgeted revenues, but management's continued focus on cost initiatives, which include lean practices, helped sustain the operating performance. MSHA's fiscal 2013 budget is for a 2% operating margin.

MSHA's operating performance was further supported by its leading inpatient market share. MSHA's acute inpatient market share in its 29-county service area was 37.5% in 2011, which compares favorably to MSHA's only major competitor's (Wellmont Health System; rated 'BBB+' by Fitch) 29.7% market share.

As of June 30, 2012, MSHA had $531.2 million of unrestricted cash and investments, equating to a solid 214 days cash on hand, which compares very favorably to Fitch's 'BBB' category median of 128.6 days. Days cash on hand was down from the prior year due to a rise in accounts receivable (AR), higher operating expenses, and continued capital spending. MSHA attributes the rise in AR to a software conversion, which disrupted the processing of claims, but believes AR will normalize by calendar year end.

Cash-to-debt of 49.1% at June 30, 2012 compares unfavorably to the 'BBB' category median of 79.8% and is reflective of MSHA's sizeable debt load. Over the medium term, Fitch expects MSHA's liquidity to grow as capital spending moderates. MSHA has been investing significantly in its plant, which totaled approximately 2 times (x) depreciation expense the last three fiscal years. Major capital projects included three new replacement hospitals. The remaining major capital project is the expansion of surgical space (16 new surgery suites) at MSHA's flagship facility, Johnson City Medical Center.

The high intensity of capital spending is expected to drop after fiscal 2012 ($134.8 million) with projected capital expenditures of $118.5 million in fiscal 2013, $74 million in fiscal 2014 and $58 million in fiscal 2015.

Fitch's main credit concerns are MSHA's sizeable debt load and fairly aggressive capital structure. Despite MSHA's strong operating cash flow, maximum annual debt service (MADS) coverage for fiscal 2012 is adequate at 2.1x by EBITDA compared to 2.3x in fiscal 2011 and Fitch's 'BBB' median of 2.6x. MADS as a percentage of revenue is also elevated at 7.8% as of June 30, 2012, much higher than the 'BBB' median of 3.3%. Beyond the current $65 million in new money, Fitch expects that MSHA's borrowing will slow as capital spending ebbs, which should provide some easing of the debt burden.

MSHA's pro forma total outstanding debt is approximately $1.17 billion with $674.5 million underlying fixed-rate and $500.1 million underlying variable-rate debt. Of the $500.1 million of variable rate debt, approximately $456.8 million are LOC backed variable rate demand obligations. The remaining variable rate exposure is a five year direct bank loan with SunTrust Bank.

Fitch views MSHA's debt profile as aggressive for its rating level due to its exposure to interest rate, put, remarketing, and LOC renewal risk. The LOCs expire between October 2014 and September 2015 and the term-out provision under the agreements is three years. However, unrestricted cash and investments to puttable debt was just over 1x as of June 30, 2012 and the investments are liquid with 96% available within three days.

MSHA has approximately $592.4 million in outstanding swaps, which are composed of basis swaps and constant maturity basis swaps. Bank of America is the sole counterparty on all of the swaps. The lack of counterparty diversity exposes MSHA to a higher level of counterparty risk. As of July 20, 2012, the aggregate mark to market of the swaps was negative $11.1 million and no collateral is currently being posted.

Separately, MSHA is posting $13.8 million on its swaps with Lehman for which MSHA has been negotiating a final termination payment. Fitch expects that the collateral posted will be adequate for the termination payment.

The Stable Outlook is based on Fitch's expectation that MSHA will continue to generate strong operating cash flow to service its debt load. Fitch expects that over time MSHA will continue to grow its liquidity due to a moderation of capital spending, which should allow MSHA to reduce its leverage. Positive rating movement would be dependent on an improvement in debt metrics.

MSHA has continued to move forward on its accountable care organization (ACO). MSHA's ACO contracting entity, Integrated Solutions Health Network (ISHN), is now a recognized ACO and was awarded a three and half year contract with the federal government. The Centers for Medicare and Medicaid Services is in the process of assigning ISHN 17,000 Medicare lives to manage.

MSHA covenants to provide annual and quarterly financial and operational disclosure to EMMA.

Outstanding rated debt:
The Health and Educational Facilities Board of the City of Johnson City, Tennessee:

--$32,885,459 hospital first mortgage revenue refunding bonds, series 2000A;
--$33,230,000 hospital first mortgage revenue bonds, series 2000C;
--$22,300,000 hospital first mortgage revenue bonds, series 2001A;
--$168,990,000 hospital first mortgage revenue bonds, series 2006A;
--$5,560,000 hospital revenue bonds, series 2009A;
--$5,535,000 Industrial Development Authority of Smyth County hospital revenue bonds, series 2009B;
--$115,955,000 Industrial Development Authority of Washington County Virginia, hospital revenue bonds, series 2009C;
--$14,315,000 Mountain States Health Alliance first mortgage bonds (taxable), series 2000D.

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In addition to the sources of information identified in Fitch's Rating Criteria, this action was additionally informed by information from BofA Merrill Lynch.

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria', June 12, 2012;
--'Nonprofit Hospitals and Health Systems Rating Criteria', July 23, 2012.

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681015)
Nonprofit Hospitals and Health Systems Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=683418)

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FitchRatings

Fitch Rts Mountain States Health Alliance Hospital Rev Bonds, Series 2012B&C 'A-/F1'

Fitch Ratings-New York-12 September 2012: Fitch Ratings assigns ratings of 'A-/F1', Stable Outlook to the $28,095,000 The Health and Educational Facilities Board of the City of Johnson City, Tennessee hospital revenue bonds (Mountain States Health Alliance) series 2012B and the $9,785,000 Industrial Development Authority of Wise County (Virginia) hospital revenue bonds (Mountain States Health Alliance) series 2012C. The ratings are based on the support provided by two separate irrevocable direct-pay letters of credit (LOCs) issued by Mizuho Corporate Bank, Ltd., New York Branch (rated 'A-/F1', Stable Outlook) securing each series of bonds.

The bank is obligated to make regularly scheduled payments of principal of and interest on the bonds in addition to payments due upon maturity, acceleration and redemption, as well as purchase price for tendered bonds. The ratings will expire upon the earliest of: (a) Sept. 17, 2015, the stated expiration date of each respective LOC; (b) conversion to an interest rate other than the weekly rate mode; (c) any prior termination of each respective LOC; and (d) defeasance of the bonds. The LOCs provide full and sufficient coverage of principal plus an amount equal to 37 days of interest at a maximum rate of 12% based on a year of 365 days and purchase price for tendered bonds while in the weekly rate mode. The Remarketing Agent for the bonds is Merrill Lynch, Pierce, Fenner & Smith Incorporated. The bonds are expected to be delivered on or about Sept. 18, 2012.

The bonds initially bear interest at a weekly rate but may be converted to a medium-term or a fixed interest rate. While bonds are in the weekly rate mode, interest payments are on the first business day of each month, commencing Oct. 1, 2012. The trustee is obligated to make timely draws on the LOCs to pay principal, interest, and purchase price. Funds drawn under the LOCs are held uninvested, and are free from any lien prior to that of the bondholders.

Holders of the bonds may tender their bonds on any business day, provided the trustee is given the requisite prior notice of the purchase. The bonds are subject to mandatory tender: (1) upon conversion of the interest rate; and (2) upon expiration, substitution or termination of the LOC. The bonds shall be accelerated following trustee's receipt of notice of an event of default under the reimbursement agreement for each respective LOC. Optional and mandatory redemption provisions also apply to the bonds. There are no provisions for the issuance of additional bonds.

Bond proceeds will be loaned to the Mountain States Health Alliance (the Alliance) pursuant to separate loan agreements between each issuer and the Alliance and related entities. The proceeds will be used by the Alliance and related entities to: (i) refinance outstanding capital leases; (ii) finance capital improvements and equipment acquisitions at facilities owned by the Alliance and its affiliates; and (iii) pay certain expenses incurred in connection with the issuance of the series 2012B&C bonds.

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Applicable Criteria and Related Research:
--'U.S. Municipal Structured Finance Criteria', Feb. 28, 2012;
--'Rating Guidelines for Letter of Credit-Supported Bonds', June 20, 2012.

Applicable Criteria and Related Research:
U.S. Municipal Structured Finance Criteria
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=672570)
Rating Guidelines for Letter of Credit-Supported Bonds

(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681737)

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Fitch Affirms Mountain States Health Alliance (TN) Revs at 'BBB+'; Outlook Stable

Fitch Ratings-New York-23 July 2013: Fitch Ratings affirms the 'BBB+' rating on the following Health and Educational Facilities Board of the City of Johnson City, Tennessee, bonds issued on behalf of Mountain States Health Alliance (MSHA):

--$55,000,000 hospital revenue bonds (Mountain States Health Alliance), series 2012A;
--$28,095,000 hospital revenue bonds (Mountain States Health Alliance), series 2012B;
--$5,490,000 hospital revenue bonds, series 2009A;
--$168,345,000 hospital first mortgage revenue bonds, series 2006A;
--$21,400,000 hospital first mortgage revenue bonds, series 2001A;
--$32,431,000 hospital first mortgage revenue refunding bonds, series 2000A;
--$32,040,000 hospital first mortgage revenue bonds, series 2000C.

In addition, Fitch affirms the following parity debt issued on behalf of MSHA:

--$9,785,000 Industrial Development Authority of Wise County (Virginia) hospital revenue bonds (Mountain States Health Alliance), series 2012C;
--$5,470,000 Industrial Development Authority of Smyth County hospital revenue bonds, series 2009B;
--$113,655,000 Industrial Development Authority of Washington County Virginia, hospital revenue bonds, series 2009C;
--$13,800,000 Mountain States Health Alliance taxable note, series 2000D.

The Rating Outlook is Stable.

SECURITY
Pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain series of debt.

KEY RATING DRIVERS
SOLID MARKET FOOTPRINT A CREDIT STRENGTH: MSHA is a 13-hospital system that covers a 29 county service area and maintains a leading 42% market share in its primary service area.

SUFFICIENT OPERATING CASH FLOW: MSHA maintains excellent operating EBITDA margins that well exceed the median ratios for the rating level.

HIGH DEBT BURDEN: MSHA's high debt burden remains Fitch's main credit concern. It pressures MSHA to maintain the strong cash flow levels in order to support debt service that has historically been adequate for the rating level.

MIXED LIQUIDITY INDICATORS: Through the four year historical period, cash and unrestricted investments have remained stable at above $500 million, with good cash flow offset by high capital spending and a recent rise in accounts receivable. Through the four year historical period days cash on hand (DCOH) has been solid at over 200 days, with the debt liquidity metrics, cushion ratio and cash to debt weaker, again reflecting the higher debt burden.

CAPITAL SPENDING SLOWING: After several years of heavy capital investment (capital spending as a percent of depreciation averaged 195% a year over the last four years), a moderation of capital spending is expected beginning in fiscal 2014.

RATING SENSITIVITIES

WEAKER VOLUMES: MSHA has seen inpatient volumes trend down-a 5% drop in the nine month year -over-year (YOY) interim period, after lower volumes in fiscal 2012. MSHA has managed expenses and continues to initiate other efficiency and revenue measures, but Fitch is concerned about the long term volume trends and their impact on operating performance.

HEALTH CARE REFORM: MSHA is engaged in a handful of programs piloting different payment methods. In the past year, MSHA was involved in a Medicare ACO that reduced cost and inpatient utilization, and should result in an estimated $5 million payment back to MSHA for shared savings. MSHA's ability to maintain the robust levels of cash flow needed to service its elevated debt burden is a key rating driver as these various programs evolve and grow in scale, rearranging both patient volumes and payment levels and methodologies.

CREDIT PROFILE

Headquartered in Johnson City, Tennessee, MSHA was formed in 1998 from the acquisition of five hospitals in Tennessee from Columbia/HCA and has grown into a large regional health care system with 13 hospitals (1,623 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a membership interest (ranging from 50.1%-80%) in three of the hospitals in the system (Smyth County Community Hospital, Norton Community Hospital and Johnston Memorial Hospital). In fiscal 2012 (June 30 year end), MSHA had total operating revenue of $996 million.

CONSISTENT OPERATING PERFORMANCE

The rating affirmation reflects MSHA's consistent operating performance.

Audited fiscal 2012 results show a 0.8% operating margin, which was lower than last year's 2.1% operating margin. Operating cash flow was stronger at 12.8%, an operating EBITDA margin better than Fitch's ''BBB' category median of 8.3%. Nine month interim results show a 0.2% operating margin and a 12.4% operating EBITDA margin, consistent with the year end performance and slightly better than the prior year nine month period. Inpatient volume was lower through the nine month interim period but MSHA is managing expenses, including a reduction in workforce, and operations were helped by $16 million in federal meaningful use funds. However, a continued trend of lower inpatient admissions would be a credit concern.

ADEQUATE LIQUIDITY

As of March 31, 2013, MSHA had $576 million of unrestricted cash and investments, equating to a solid 230.5 DCOH, which compares favorably to Fitch's 'BBB' category median of 138.9 days. Cash-to-debt of 51.2% at March 31, 2013, compares unfavorably to the 'BBB' category median of 82.7% and is reflective of MSHA's sizeable debt load. Over the medium term, Fitch expects MSHA's liquidity to grow as capital spending moderates.

CAPITAL SPENDING ABATING

MSHA has been investing significantly in its plant, which totaled approximately 2 times (x) depreciation expense the last three fiscal years. Major capital projects included three new replacement hospitals. The remaining major capital project is the expansion of surgical space (16 new surgery suites) at MSHA's flagship facility, Johnson City Medical Center. The high intensity of capital spending is expected to drop after fiscal 2012 ($132.9 million) with projected capital expenditures of $118.5 million in fiscal 2013, $90 million in fiscal 2014 and $50 million in fiscal 2015.

HIGH DEBT BURDEN

Fitch's main credit concerns are MSHA's sizeable debt load and fairly aggressive capital structure. Despite MSHA's strong operating cash flow, maximum annual debt service (MADS) coverage for fiscal 2012 is adequate at 2.1x by EBITDA compared to Fitch's 'BBB' median of 2.8x. MADS as a percentage of revenue is also elevated at 7.4% as of June 30, 2012, much higher than the 'BBB' median of 3.3%. However, MSHA is restructuring much of its variable rate debt, and, once complete, MADS is expected to lower to $70.2 million from $73.3 million (MADS does not included Johnson Memorial Hospital debt which is outside the obligated group).

DEBT STRUCTURE RISKS

At March 31, 2013, MSHA's total outstanding debt was approximately $1.1 billion with $695.8 million underlying fixed-rate and $433.2 million underlying variable-rate debt. The vast majority of the variable rate debt is LOC backed variable rate demand obligations. MSHA is in the process of restructuring much of this variable rate debt. With the restructuring, MSHA plans to diversify into direct bank placement debt, as well as stagger the expiration dates of the LOCs to reduce risk. Fitch was not asked to provide an underlying long term rating to these variable rate debt series.

In spite of the MSHA's risk mitigation on its variable rate debt, Fitch continues to view MSHA's debt profile as aggressive for its rating level due to its exposure to interest rate, put, remarketing, and LOC renewal risk. Unrestricted cash and investments to puttable debt was just over 1x as of March 31, 2013 and the investments are liquid with 96% available within three days.

MSHA has approximately $597.1 million in outstanding swaps, which are composed of basis swaps and constant maturity basis swaps. Bank of America is the counterparty for all but $5 million of the swaps. The lack of counterparty diversity exposes MSHA to a higher level of counterparty risk. As of April 30, 2013, the aggregate mark to market of the swaps was a negative $1.8 million and no collateral is currently being posted. Additionally, a swap that MSHA had with Lehman has been settled with MSHA paying out less than it had reserved.

DISCLOSURE
MSHA covenants to provide annual and quarterly financial and operational disclosure to EMMA.

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In addition to the sources of information identified in Fitch's Rating Criteria, this action was additionally informed by information from BofA Merrill Lynch.

Applicable Criteria and Related Research:
--Revenue-Supported Rating Criteria, June 3, 2013;
--U.S. Nonprofit Hospitals and Health Systems Rating Criteria, May 20, 2013.

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=709499)
U.S. Nonprofit Hospitals and Health Systems Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=708361)

Additional Disclosure
Solicitation Status (http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=797439)

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--$34,645,000 hospital first mortgage revenue refunding bonds, series 2000A;
--$30,750,000 hospital first mortgage revenue bonds, series 2000C.

In addition, Fitch affirms the following parity debt issued on behalf of MSHA:

--$5,400,000 Industrial Development Authority of Smyth County hospital revenue bonds, series 2009B;
--$111,265,000 Industrial Development Authority of Washington County Virginia, hospital revenue bonds, series 2009C;
--$13,245,000 Mountain States Health Alliance taxable note, series 2000D.

The Rating Outlook is Stable.

SECURITY
Pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain series of debt.

KEY RATING DRIVERS

SOFTER FY2013 OPERATING PERFORMANCE: Net patient service revenue fell 2% year over year, which led to a drop in MSHA's operating margin to 1.1% from 1.7%. The weaker performance was driven by lower inpatient volumes and a continued rise in observation days.

OPERATING CASH FLOW SUFFICIENT: In spite of the weaker operating margin, MSHA's operating

EBITDA margin remained steady at 13.2%, exceeding Fitch's 'BBB' category median of 9.9%.

HIGH DEBT BURDEN: MSHA's high debt burden remains a key credit concern. It pressures MSHA to maintain the strong cash flow levels in order to support debt service that has historically been adequate for the rating level.

MARKET FOOTPRINT A CREDIT STRENGTH: MSHA is a 14-hospital system that covers a 29 county service area and maintains a leading 53% market share in its primary service area.

MIXED LIQUIDITY INDICATORS: Through the four-year historical period days cash on hand (DCOH) has been solid at over 200 days; however, liquidity metrics relative to debt (cushion ratio and cash to debt) are weaker reflecting the elevated debt burden.

CAPITAL SPENDING SLOWING: After several years of heavy capital investment, a moderation of capital spending is expected beginning in fiscal 2014, which should provide MSHA with a measure of financial flexibility.

RATING SENSITIVITIES

THINNER OPERATING PERFORMANCE: MSHA has been challenged by lower inpatient volume, which has eroded its operating margin. While first quarter volumes are still down year over year, patient service revenue is up along with inpatient surgery volumes. Additionally, MSHA continues to aggressively manage expenses, but a further erosion of its operating margin could lead to negative rating pressure.

REFORM INITIATIVES: MSHA has made material investments in positioning the organization for health care reform. These initiatives include starting up a health plan, forming a Medicare ACO, and increasing physician engagement across the organization. A key for MSHA will be its ability to realize a financial return on these strategies after the initial investment for these initiatives.

CREDIT PROFILE
Headquartered in Johnson City, Tennessee, MSHA was formed in 1998 from the acquisition of five hospitals in Tennessee from Columbia/HCA and has grown into a large regional health care system with 14 hospitals (1,623 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a membership interest (ranging from 50.1%-80%) in three of the hospitals in the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In fiscal 2013 (June 30 year end), MSHA had total operating revenue of $1 billion.

At the end of calendar year 2013, MSHA's long serving CEO retired and a new CEO started. Fitch views the transition as a credit neutral. The retirement was planned in advance, providing MSHA ample time to undertake a thorough search. The new CEO, whom Fitch met with, has extensive industry background, including most recently managing a group of hospitals at a for profit health care organization.

Softer FY13 Performance

From fiscal 2012 to fiscal 2013, MSHA's operating margin fell to 1.1% from 1.7%. The drop in operating performance was driven by a decline in inpatient volume coupled with a rise in observation days, especially at its main tertiary hospital, Johnson City Medical Center (JCMC). In fiscal 2013, JCMC's inpatient volume declined 6.4% from the prior year (compared to a system decline of 5%), while observation days, which are reimbursed at a lower rate than inpatient days, increased 6.2% at both JCMC and across the system.

The lower inpatient volumes led to a year over year decline in net patient service revenue, which declined 4.8% at JCMC (JCMC accounts for approximately 51% of MSHA's patient service revenue) and 2% system wide. Total operating revenue at MSHA did increase but was helped by an additional $17 million of federal meaning full use funds in fiscal 2013.

As a result, in fiscal 2013, system operating income fell to $11.5 million from $16.9 million in fiscal 2012. MSHA is budgeting for an operational improvement in fiscal 2014. To achieve this, MSHA has a strategy to address observation stays through improved physician documentation and physician education and is also implementing cost reductions, including a recent layoff of 161 full-time equivalents. MSHA continues to manage expenses through its LEAN practices as well.

First quarter performance is generally the weakest quarter and in the first quarter of 2014, MSHA operating margin was negative 1.6%, an improvement from a negative 2.6% in the first quarter of fiscal 2013. As important, net patient service revenue grew year over year. Fitch believes that MSHA will be able sustain the rate of operating improvement through the rest of the fiscal year.

Also helping to mitigate the operating margin concerns is MSHA's operating EBITDA, which has remained above category medians. In fiscal 2013, MSHA's operating EBITDA was 13.2%, and it was 11.1% in first quarter 2014, both above the category median of 9%.

HIGH DEBT BURDEN/CAPITAL SPENDING ABATING

MSHA's debt burden is elevated for the rating level and puts added pressure on MSHA to sustain solid cash flow. Both maximum annual debt service (MADS) as a percent of revenue at 7.6% and debt to EBITDA of 9.1x are significantly higher than Fitch's' 'BBB' category medians of 3.5% and 3.8x, respectively. MADS coverage by EBITDA in fiscal 2013 was an adequate 2.1x, compared to a median of 3.1x.

However, MSHA is ending an extended period of intense capital investment. Over the last six years, capital spending averaged approximately 180% of depreciation relative to a median of 110.1%. Major capital projects completed over this time include the building of three replacement hospitals. Moving forward, Fitch expects MSHA's capital spending to reduce to a more manageable level, closer to 100% of depreciation. This should help ease MSHA's leveraged position and provide a measure of financial flexibility as MSHA's works to improve operations.

ADEQUATE LIQUIDITY
As of Sept. 30, 2013, MSHA had $606.3 million of unrestricted cash and investments, equating to a solid 244.6 days cash on hand, which compares favorably to Fitch's 'BBB' category median of 144.7 days. Cash-to-debt of 54.7% compared unfavorably to the 'BBB' category median of 91.7% and also reflects MSHA's sizeable debt load. Unrestricted cash and investments have grown approximately 14% since fiscal year end 2012, when it was at $531.2 million.

DEBT STRUCTURE
Fitch continues to view MSHA's debt structure as aggressive relative to its rating level, with a number of swaps and approximately $425 million in variable rate debt. In the last year, MSHA did restructure most of its variable rate debt to mitigate some of the put, renewal, and remarketing risk. Prior to the restructuring, the vast majority of MSHA's variable debt was supported by bank letters of credit (LOCs), with the LOCs expiring on the same date for approximately $400 million of the debt.

Post-restructuring, MSHA directly placed about half of the variable rate debt ($211 million) with three different banks, removing near-term put and remarketing risk for that debt. MSHA also negotiated to stagger the timing of the mandatory put dates for the private placements and the expiration dates on the LOCs. These dates now range from three to 10 years, with a maximum amount of debt coming due on any single date at a much more manageable level of $192 million. Fitch views these changes positively.

MSHA's total outstanding long term debt is approximately $1.1 billion with approximately 58% fixed rate and 42% variable. MSHA has approximately $570 million in outstanding swaps, which are composed of basis swaps and constant maturity basis swaps. Bank of America is the counterparty for all of the swaps. The lack of counterparty diversity exposes MSHA to a higher level of counterparty risk. As of November 30, 2013, the aggregate mark to market of the swaps was a negative $14.1 million. No collateral is currently being posted for the swaps.

DISCLOSURE
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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'U.S. Nonprofit Hospitals and Health Systems Rating Criteria' (May 20, 2013).

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U.S. Nonprofit Hospitals and Health Systems Rating Criteria
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=708361)

Additional Disclosure
Solicitation Status (http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=820408)

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Ratings Endorsement Policy
12 Feb 2014 2:23 PM (EST)

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OPERATING CASH FLOW SUFFICIENT: In spite of the weaker operating margin, MSHA's operating EBITDA margin remained steady at 13.2%, exceeding Fitch's 'BBB' category median of 9.9%.

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However, MSHA is ending an extended period of intense capital investment. Over the last six years, capital spending averaged approximately 180% of depreciation relative to a median of 110.1%. Major capital projects completed over this time include the building of three replacement hospitals. Moving forward, Fitch expects MSHA's capital spending to reduce to a more manageable level, closer to 100% of depreciation. This should help ease MSHA's leveraged position and provide a measure of financial flexibility as MSHA's works to improve operations.

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DEBT STRUCTURE
Fitch continues to view MSHA's debt structure as aggressive relative to its rating level, with a number of swaps and approximately $425 million in variable rate debt. In the last year, MSHA did restructure most of its variable rate debt to mitigate some of the put, renewal, and remarketing risk. Prior to the restructuring, the vast majority of MSHA's variable debt was supported by bank letters of credit (LOCs), with the LOCs expiring on the same date for approximately $400 million of the debt.

Post-restructuring, MSHA directly placed about half of the variable rate debt ($211 million) with three different banks, removing near-term put and remarketing risk for that debt. MSHA also negotiated to stagger the timing of the mandatory put dates for the private placements and the expiration dates on the LOCs. These dates now range from three to 10 years, with a maximum amount of debt coming due on any single date at a much more manageable level of $192 million. Fitch views these changes positively.

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Additional information is available at ‘www.fitchratings.com’.

Applicable Criteria and Related Research:
--‘U.S. Nonprofit Hospitals and Health Systems Rating Criteria’ (May 20, 2013).

Applicable Criteria and Related Research:
U.S. Nonprofit Hospitals and Health Systems Rating Criteria

Additional Disclosure
Solicitation Status

Fitch Affirms Mountain States Health Alliance (TN) Revs at 'BBB+'; Outlook Stable

Fitch Ratings-New York-11 February 2015: Fitch Ratings affirms its 'BBB+' rating on Health and Educational Facilities Board of the City of Johnson City, Tennessee, revenue bonds issued on behalf of Mountain States Health Alliance (MSHA) and the parity debt issued on behalf of MSHA listed at the end of the press release:

The Rating Outlook is Stable.

SECURITY

Bonds are secured by pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain series of debt.

KEY RATING DRIVERS

STRONG PROFITABILITY FROM CORE OPERATIONS: Despite a slight erosion in operating EBITDA margins since fiscal 2011, MSHA's operating EBITDA of 11.8% in fiscal 2014 well exceeds the 'BBB' category median of 7.9%. Through the first quarter ended September 30, (1Q'15) MSHA posted an improved 1.8% operating margin and 12.9% operating EBITDA margin compared to the prior year period.

IMPROVED MANAGEMENT PRACTICES: Fitch believes the new CEO, who started in FY2014, has had a positive impact on performance by instituting a variety of changes and initiatives designed to leverage MSHA's credit strengths and maximize the return on system assets. MSHA is budgeting for a 2.7% operating margin in FY2015, which Fitch believes is achievable.

HIGH DEBT BURDEN: MSHA's debt burden remains a key credit concern which allows little room for erosion in MHSA's strong historical profitability. Maximum annual debt service (MADS) as a percent of revenue at 7% and debt-to-EBITDA of 7.6x are significantly higher than Fitch's' 'BBB' category medians of 3.6% and 3.9x, respectively. MADS coverage by EBITDA in FY2014 was an adequate 2.1x, compared to a median of 2.6x.

MIXED LIQUIDITY METRICS: Days cash on hand (DCOH) has averaged 240 through the four-year historical period, in line with management's target and good for the rating level. However, liquidity metrics relative to debt (cushion ratio and cash-to-debt) are weaker, reflecting the elevated debt burden.

RATING SENSITIVITIES

DELEVERAGING PLAN VIEWED POSITIVELY: Management has stated its intent to reduce its leverage position beginning in fiscal 2015. MSHA has developed a plan to pay down roughly $350 million of debt (above the $177.4 million of amortizing principal payments) from FY2016 through FY2022 through excess cash flow. The debt reduction plan would mitigate MSHA's debt burden, which continues to be a major credit concern for Fitch. At Sept. 30, 2014, MADS was a very high 7% of revenue relative to a median of 3.6%.

CONTINUED STRONG PERFORMANCE: Sustained strong profitability - MSHA is projecting higher operating margins over the next five years - combined with manageable capital plans and execution of the system's deleveraging plans would likely result in positive rating momentum. Conversely, a material compression of historical operating performance over the near term could pressure the rating.

CREDIT PROFILE
Headquartered in Johnson City, Tennessee, MSHA was formed in 1998 from the acquisition of six hospitals in Tennessee from Columbia/HCA and has grown into a large regional health care system with 13 hospitals (1,671 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a membership interest (ranging from 50.1%-80%) in three of the hospitals in the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In FY2014 (June 30 year-end), MSHA had total operating revenue of $1 billion.

STRONGER 2015 PERFORMANCE AFTER SOFT 2014
Fiscal performance has rebounded in 1Q'15 from the year prior. Admissions in the interim period were up 8.2% from the year prior, which led to net patient revenue growth of 5.8% year-over-year (YOY). The system posted a 1.8% operating margin through 1Q'15 which is improved from the negative 1.6% generated in the prior year. Management is projecting improved performance in FY2015 compared to FY2014, which will include the impact of an estimated $4 million in supply chain savings, as well as the reestablishment of a contract with Cigna, effective October 2014. MSHA had been out of network with Cigna for almost three years, which impacted revenues in FY2012 to FY2014. Longer-term initiatives, around physician recruitment, service line enhancement, quality, safety, patient satisfaction, and efficiencies, should help sustain the improved operating performance.

Operating margin declined to 0.2% in FY2014 from 1.1% in FY2013 reflecting the impact of a shift from inpatient admissions to observation stays. YOY acute admissions fell by 1.8% from FY2013 to FY2014, while observation stays increased 2.8%. However, Fitch notes system financial performance improved in the latter half of the fiscal year and that momentum has continued into FY2015.

Operating cash flow remains strong, which is key to maintaining the rating because of MSHA's high debt burden. In FY2014, operating EBITDA weakened YOY to 11.8% from 13.2%, but was strong relative to category median of 7.9%. Through 1Q'15, operating EBITDA was 12.9%; an improvement from 11.1% in the prior year period.

Strong 1Q'15 performance was driven by strong admissions growth in MSHA's northeast market, where admissions grew over 11% YOY to 2,969, and net patient revenue was up 6.7%. Improvements were offset somewhat by weakness in the northwest and southeast markets. System-wide observation cases declined 1.8% YOY, following MSHA's efforts relative to clinical documentation. Additionally, cost-containment measures begun in FY2014, such as a 6% reduction in workforce and continued Lean processes, appear to have borne fruit.

HIGH DEBT LOAD

MSHA's debt burden is elevated for the rating level which puts added pressure on it to sustain its strong cash flow. Both MADS as a percent of revenue at 7% and debt-to-EBITDA of 7.6x are significantly higher than Fitch's' 'BBB' respective category medians of 3.6% and 3.9x. MADS coverage by EBITDA in FY2014 was an adequate 2.1x, compared to the median of 2.6x.

DELEVERAGING PLAN CREDIT POSITIVE

Management has stated its intention to reduce its high debt burden (60.5% debt-to-capitalization in 2014) through 2022 by using excess operations cash flow to prepay outstanding debt. The deleveraging plan follows an extended period of intense capital spending, which averaged 180% of depreciation in the six years leading up to 2013.

Management is targeting a 43% debt-to-capitalization ratio in 2019 while maintaining liquidity of at least 250 DCOH as part of its deleveraging plan. These efforts feature a good degree of flexibility should operational performance become pressured or capital needs increase from current lower projections. MSHA's capital spending is projected at a more manageable level, closer to 100% of depreciation. Fitch views positively management's plan to lower its debt burden and thus mitigate a key credit concern.

AGGRESSIVE DEBT PROFILE

Fitch continues to view MSHA's debt structure as aggressive relative to its rating level, with a number of swaps and approximately $473 million in variable rate debt representing 42% of MSHA's total outstanding long-term debt. Roughly half of the variable rate debt ($211 million) is privately placed with three different banks, and put dates for the private placements and letters of credit are adequately staggered. The maximum amount of debt coming due on any single day is a manageable $106 million in July 2018.

MSHA's outstanding swaps have a notional amount of $590 million, composed of basis swaps, constant maturity basis swaps, and total return swaps. Bank of America is the counterparty for all of the swaps, elevating counterparty risk. As of Nov. 24, 2014, the aggregate mark-to-market of the swaps was a negative $12.2 million. No collateral is currently being posted for the swaps.

ADEQUATE LIQUIDITY
As of Sept. 30, 2014, MSHA had $645.6 million of unrestricted cash and investments, equating to a solid 252 DCOH, which compares favorably to Fitch's 'BBB' category median of 145 days. Cash-to-debt of 59.6% compared unfavorably to the 'BBB' category median of 93.6%, reflecting MSHA's sizeable debt load. Positively, unrestricted cash and investments continue to grow, up 21.5% since 2012, when it was at $531.2 million (representing 212 DCOH).

DISCLOSURE
MSHA covenants to provide annual and quarterly financial and operational disclosure to EMMA.

Fitch affirms the following debt:

--$55,000,000 hospital revenue bonds (Mountain States Health Alliance), series 2012A;
--$5,415,000 hospital revenue bonds, series 2009A;
--$167,730,000 hospital first mortgage revenue bonds, series 2006A;
--$20,400,000 hospital first mortgage revenue bonds, series 2001A;
--$34,645,000 hospital first mortgage revenue refunding bonds, series 2000A;
--$30,750,000 hospital first mortgage revenue bonds, series 2000C.

In addition, Fitch affirms the following parity debt issued on behalf of MSHA:

--$5,400,000 Industrial Development Authority of Smyth County hospital revenue bonds, series 2009B;
--$111,265,000 Industrial Development Authority of Washington County Virginia, hospital revenue bonds, series 2009C;
--$13,245,000 Mountain States Health Alliance taxable note, series 2000D.

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Applicable Criteria and Related Research:
--'Nonprofit Hospitals and Health Systems Rating Criteria', dated May 30, 2014.

Applicable Criteria and Related Research:
U.S. Nonprofit Hospitals and Health Systems Rating Criteria
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=746860)

Additional Disclosure
Solicitation Status (http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=979551)

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FitchRatings

Fitch Places Mountain States Health Alliance (TN) Revs on Rating Watch Evolving

Fitch Ratings-New York-06 April 2015: Fitch Ratings has placed on Rating Watch Evolving the 'BBB+' rating for Health and Educational Facilities Board of the City of Johnson City, Tennessee, revenue bonds issued on behalf of Mountain States Health Alliance (MSHA) and parity debt issued on behalf of MSHA listed at the end of the press release.

SECURITY

Bonds are secured by pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain series of debt.

KEY RATING DRIVERS

MERGER ANNOUNCEMENT: Fitch has placed MSHA's 'BBB+' rating on rating watch evolving due the announcement that MSHA and Wellmont (general revenue bonds rated 'BBB+') have signed an agreement to explore a merger. The announcement states that the two organizations are exploring a plan to combine assets and operations to form a new integrated health care system that will include a combined board.

UNDERTAKING DUE DILIGENCE: The organizations plan to enter a period of due diligence, which is expected to conclude by July or August of 2015, and then submit a Certificate of Public Advantage to the Tennessee and a similar application to Virginia by the end of August seeking approval of a merger. Fitch will take rating action at the appropriate time as the process unfolds and clarifying details emerge on the new health system.

RECENT RATING AFFIRMATION: For more information on MSHA see Fitch's press release 'Fitch Affirms Mountain States Health Alliance (TN) Revs at 'BBB+'; Outlook Stable' dated Feb. 11, 2015.

RATING SENSITIVITIES
COMPLETION OF PENDING TRANSACTION: Resolution of the rating watch will be tied to the completion of the pending transaction and the treatment of MSHA's debt post-transaction.

CREDIT PROFILE

Headquartered in Johnson City, Tennessee, MSHA was formed in 1998 from the acquisition of six hospitals in Tennessee from Columbia/HCA and has grown into a large regional health care system with 13 hospitals (1,671 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a membership interest (ranging from 50.1%-80%) in three of the hospitals in the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In fiscal 2014 (June 30 year end), MSHA had total operating revenue of $1 billion.

RATED DEBT
--$55,000,000 hospital revenue bonds (Mountain States Health Alliance) series 2012A;
--$5,415,000 hospital revenue bonds series 2009A;
--$167,730,000 hospital first mortgage revenue bonds series 2006A;
--$20,400,000 hospital first mortgage revenue bonds series 2001A;
--$34,645,000 hospital first mortgage revenue refunding bonds series 2000A;
--$30,750,000 hospital first mortgage revenue bonds series 2000C.

In addition, Fitch places the 'BBB+' rating on the following parity debt issued on behalf of MSHA on Rating Watch Evolving:

--$5,400,000 Industrial Development Authority of Smyth County hospital revenue bonds series 2009B;
--$111,265,000 Industrial Development Authority of Washington County Virginia, hospital revenue bonds series 2009C;
--$13,245,000 Mountain States Health Alliance taxable note series 2000D.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria' (June 16, 2014);
--'U.S. Nonprofit Hospitals and Health Systems Rating Criteria'(May 30, 2014).

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012)
U.S. Nonprofit Hospitals and Health Systems Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=746860)

Additional Disclosure
Solicitation Status (http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=982501)

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Moody's Investors Service

Rating Update: MOODY'S AFFIRMS MOUNTAIN STATES HEALTH ALLIANCE'S (TN) Baa1 UNENHANCED RATING IN ANTICIPATION OF UPCOMING REFINANCING STRUCTURE; OUTLOOK REMAINS STABLE

Global Credit Research - 22 Dec 2009

MOUNTAIN STATES HEALTH ALLIANCE HAS A TOTAL OF $1.01 BILLION OF RATED DEBT PROPOSED TO BE OUTSTANDING

Health Care-Hospital
TN

Opinion

NEW YORK, Dec 22, 2009 -- Moody's Investors Service has affirmed the Baa1 unenhanced rating assigned to Mountain States Health Alliance's (MSHA) $971 million of rated debt outstanding issued through various authorities (see RATED DEBT section below). The outlook remains stable. MSHA anticipates issuing approximately $311 million of fixed rate bonds in early 2010 to refund certain outstanding bond issues and establish a debt service reserve fund. The financing documents have not been drafted at this time.

LEGAL SECURITY: The bonds are secured by a security interest in the Pledged Assets (receivables, inventory, equipment, general intangibles, contracts and contract rights, government approvals, fixtures and other personal property, goods, instruments, chattel paper, documents, credits, claims, demands and assets) and a first lien on the Mortgaged Property, which includes the major hospitals, subject to certain permitted liens.

INTEREST RATE DERIVATIVES: MSHA is a party to interest rate swaps and other derivative agreements to establish floating rate exposure and to reduce fixed rate debt service. MSHA holds three basis swaps, two fixed payer swaps and one total return swap with Merrill Lynch Capital Services Inc. (guaranteed by Merrill Lynch & Co) for a total notional amount of $570 million. The fair market value of the swaps at December 18, 2009 was a liability of $13.0 million, against which MSHA posted $0 million in collateral.

MSHA holds eight additional agreements ($50 million notional amount) with Lehman Brothers Special Financing, Inc. (Lehman) for various notional amounts that are linked fixed payer and total return swaps. Fair market value of the swap at January 31, 2009 was a liability of $11.0 million, against which MSHA has posted $12.6 million of collateral (collateral is not included in unrestricted cash). Lehman filed for bankruptcy and the swaps were terminated effective January 1, 2009. There is a dispute between MSHA and Lehman regarding the cost of such termination, which is currently under discussion. MSHA has stated that it believes that the amount of the posted collateral should be sufficient to pay the cost of the terminations.

In addition, MSHA has two outstanding interest rate swaptions, four float contracts and five forward sale agreements with Bear Stearns Capital Markets, Inc. (guaranteed by Bear Stearns Companies, Inc., acquired by JP Morgan) whereby MSHA received advance payments that have been placed in a guaranteed investment contract as collateral against the agreements (this collateral is not included in unrestricted cash). As of November 30, 2009 the liability on the swaptions, float contracts and forward sale agreements exceeded the collateral by $1.5 million. MSHA has the option to terminate the swaptions on July 1, 2011 at a predetermined price equal to the value of the collateral on deposit with Bear Stearns or to hold the swaptions to maturity and let them expire. Given the terms of the agreements, the collateral held against the derivative transactions and MSHA's credit profile and strong liquidity position, we believe the transactions do not detract from the Baa1 rating.

STRENGTHS

*Multi-hospital system with strong and growing leading market share in a large geographic region where the flagship facility serves as a regional referral center offering a wide array of high-end services for hospitals in Tennessee and Virginia

*Multi-year growth in volumes with acquisitions

*Strong and stable operating cash flow margins in the 11.4% to16.7% range in each of the past fifteen audit years, with volume increases contributing to cash flow growth; projected operating cash flow margins remain in the double digits

*Good liquidity position with 242 days cash on hand at fiscal year end (FYE) 2009 (June 30) and 225 days as of September 30, 2009

*Reduction in exposure to variable rate debt and exposure to tenders under letter of credit supported debt, increasing fixed rate debt to 73% from 45% of total debt outstanding; pro forma cash-to-puttable debt at 171%

*Tenured management team

CHALLENGES

*Very high debt burden evidenced by a low 48% cash-to-debt ratio, high 9.9 times debt-to-cash flow ratio and moderate Moody's-adjusted maximum annual debt service coverage of 2.39 times as compared with Moody's Baa1 medians of 72%, 5.7 times and 3.2 times, respectively

*Capital spending projected to remain high in the near term with major spending on consolidation of two smaller Johnson City facilities into a single replacement facility, and capital commitment for investment into new 80% owned Smyth County Community Hospital and capital commitment for Johnston Memorial Hospital; however, no new debt is currently expected in connection with these projects and several have already been financed with debt in whole or in part;

*Sizable and consistent competition from Wellmont Health System, which holds a close but lesser market share (37% vs. 30%) in the extended 29-county service area and a significantly smaller market share (52% versus 37%) in the 13-county core service area, but has been increasing its presence in the extended service area through acquisition

*High 22.3% TennCare/Medicaid and self-pay load

MARKET POSITION/COMPETITIVE STRATEGY: DOMINANT MARKET POSITION IN JOHNSON CITY, WITH LEADING MARKET POSITION IN 13-COUNTY CORE AREA AND 29-COUNTY EXTENDED SERVICE AREA

MSHA, a multi-hospital system operating ten acute care hospitals and 14 facilities in northeastern Tennessee, southwest Virginia, southeast Kentucky and western North Carolina, gains much credit strength from its dominant 90% market share in Washington County, TN where it operates six of its facilities, including its flagship 583-licensed bed Johnson City Medical Center (JCMC), and is the only provider of acute care services. JCMC includes the 60-licensed bed Quillen Rehabilitation Hospital, providing a complete array of rehabilitative services for brain injury, stroke, and spinal cord injury and the 75-licensed bed Woodridge Hospital offering inpatient psychiatric and substance abuse services (purchased in 2005). MSHA also holds a leading 51.8% market position in its combined 13-county primary and secondary service areas (PSA/SSA), and a leading and consistent 36.7% market share in its 29-county extended service area. Competition is limited to one multi-hospital system (Wellmont Health System) and several small independent rural providers. Wellmont Health System operates four of its eight hospitals in MSHA's core market, garnering a distant 37.5% market share in the core service area, but a close 29.5% market share in the extended 29-county service area. Many of the rural hospitals in the primary and secondary service area are affiliated with MSHA through network affiliations.

JCMC is a regional referral center for northeastern Tennessee offering a full array of acute care services, including one of only five state-designated Level III Regional Perinatal Centers, a Level I trauma center, and performs kidney and pancreatic transplants. Also in Johnson City is 91-licensed bed North Side Hospital offering acute care and skilled nursing services, and 36-licensed bed Johnson City Specialty Hospital offering inpatient and outpatient obstetrical, gynecological and otorhinolaryngologic (ear, nose & throat) services. MSHA also owns Indian Path Medical Center and Pavilion located in Kingsport (Sullivan County), which competes against the much larger Wellmont facilities, Sycamore Shoals Hospital located in Elizabethton (Carter County) with no direct competition, and the designated critical access hospital Johnson County Community Hospital in Johnson County.

MSHA opened its newly constructed free-standing children's hospital in March 2009. It is the region's first free-standing children's hospital. In addition, MSHA is constructing a single 80-bed replacement facility for its North Side Hospital and Johnson City Specialty Hospital facilities. The new hospital will provide much more state-of-the-art care, replacing two much older facilities. Along with the relocation of certain long-term care beds to Quillen and acute care beds to JCMC, the project is estimated to cost $120 million and to be funded 50% from cash flow and 50% from proceeds of the Series 2008 bonds.

In November 2006, MSHA began an expansion strategy in Virginia with the purchase of an 80% interest in 154-licensed general acute care/109 long-term care bed Smyth County Community Hospital (SCCH) located in Marion, Virginia. MSHA committed to $48 million in capital improvements with the acquisition, of which $28 million has yet to be invested. In October 2007, MSHA acquired a 50.1% equity interest in 129-licensed bed Norton Community Hospital and 25-licensed bed Dickenson Community Hospital (Clintwood). The Series 2007 bond issues included $52 million to support capital commitments at these new facilities. Effective January 31, 2008 MSHA acquired 78-licensed bed Russell County Medical Center in Lebanon, Virginia. Approximately $53 million of Series 2008 bond proceeds financed this acquisition and provided funds for capital expenditures. In April 2009 MSHA acquired a 50.1% interest in Johnston Memorial Hospital (revenue bonds rated A3) in Abington, VA, committing to invest $132 million for capital; $100 million of the proceeds from the Series 2009C bonds will be used to fund a portion of this commitment.

MSHA's main competitor, Wellmont Health System, has also expanded with the acquisition of 133-licensed bed Mountainview Regional Medical Center also located in Norton, VA, and 50-bed Lee Regional Medical Center located in Pennington Gap, VA. Wellmont Health System is an eight hospital system with hospitals in TN, VA and KY, some of which compete directly with MSHA facilities.

OPERATING PERFORMANCE: OPERATING CASH FLOW MARGIN REMAINS CONSISTENTLY STRONG

FY 2009 operating profit grew to $6.4 million from $0.4 million the prior year (including capitalized interest of $596,000 and $3.7 million in FY 2009 and FY 2008, respectively), but operating margin remains modest at 0.8%. Operating cash flow increased $12.0 million to $120.8 million to generate a strong 14.4% margin. MSHA's operating cash flow margins remain strong and have consistently ranged between 11.4% and 16.7% in each of the past fifteen audit years. The expansion into Virginia along with volume growth contributed to a very good 13.1% growth in revenues in FY 2009. Projected operating cash flow margins remain in the double digit teens.

Debt-to-cash flow improved in FY 2009 but remains high at 9.90 times (Baa1 median of 5.7 times). Moody's-adjusted MADS coverage is adequate at 2.39 times in FY 2009, but again unfavorable to the Baa1 median of 3.2 times. Management is forecasting for improvement in these ratios with major capital projects completed or near completion through 2011. There are no additional facility expansion plans at this time, and management plans to focus on integrating the new Virginia hospitals into the system.

BALANCE SHEET POSITION: DEBT LOAD REMAINS HIGH; ABSOLUTE LIQUIDITY GROWTH BUT RELATIVE LIQUIDITY FLAT TO DECLINING

Unrestricted liquidity improved 12% in FY 2009 to $515.1 million from $458.7 million at FYE 2008 despite unfavorable market returns on investments, yet cash on hand remained stable at 242 days due to growth in the expense base with the addition of Johnston Memorial in Virginia. FY 2009 liquidity was unfavorably impacted by the $18 million cash defeasance of part of the Series 2006C bonds, but favorably impacted by a reduction in capital spending from cash flow. Absolute liquidity continued to grow in the first three months of FY 2010 to reach $544.8 million yet, again, cash on hand (annualized) declined due to expense growth, to 225 days. Nonetheless, MSHA has maintained greater than 200 days' cash on hand in each of the past six audited years.

The debt load remains high, reaching $1.072 billion at FYE 2009 with the addition of debt to finance the capital contribution for Johnston Memorial in Virginia and the consolidation of Johnston Memorial's $34 million of outstanding debt into the financial statements. MSHA's debt-to-revenue of 128% at FYE 2009 is one of the highest in our portfolio. Moody's notes that outstanding debt has increased annually since FY 2002, due largely to expansion into Virginia as well as the major capital projects for the new children's hospital and the replacement hospital for Northside and Johnson Specialty. As a result of the high debt load cash-to-debt remains low at 48% at FYE 2009 (Baa1 median of 72%). Management is forecasting for steady, annual improvement in the cash-to-debt ratio. The only potential near term debt plan is to provide up to $30 million of capital funding for Smyth Hospital. Moody's will evaluate the impact of additional debt as funding plans are finalized.

With the current refinancing, MSHA is restructuring its debt portfolio to reduce variable rate risk exposure and risk of tendered bonds by refunding certain variable rate debt instruments. We note that approximately $295 million of outstanding debt is scheduled to remain outstanding as variable rate puttable debt supported by letters of credit (LOCs) that expire in December 2012. MSHA's current liquidity comfortably covers potential puttable debt by 171%. MSHA has 367 days from the provision of a draw for tendered bonds to repay Regions Bank for the draw. Covenants in the LOCs include a maximum annual debt service coverage ratio of no less than 1.3 times for the obligated group, and a days' cash-on-hand ratio for the obligated group. The days cash covenant requires no less than 110 days or a consultant must be brought in, no less than 100 days in any case, and if it falls below 150 days then the debt service reserve funds supported by the LOCs must be fully funded with cash or a letter of credit.

Outlook

The stable outlook reflects our belief that MSHA will continue to generate strong and stable operating cash flow margins to support its high debt load. We believe liquidity will improve barring any major negative fair market value adjustments. Management is considering additional debt in the near-term to support capital investments in recent hospital acquisitions. We will evaluate the rating impact of future debt issues as plans develop.

What could change the rating--UP

Continued growth in operating cash flow to support the high debt load; material improvement in debt measures; regrowth of liquidity; increased diversification of cash flow

What could change the rating--DOWN

Increase in debt load without commensurate increase in cash flow; notable loss in market share; trend of decline in operating cash flow; material decline or loss of supplemental payments for servicing the Medicaid and indigent populations

KEY INDICATORS

Assumptions & Adjustments:

-Based on financial statements for Mountain States Health Alliance

-First number reflects the audit year ended June 30, 2008

-Second number reflects audit year ended June 30, 2009

-Expenses include capitalized interest of $0.6 million and $3.7 million in FY 2009 and FY 2008, respectively

-Investment returns smoothed at 6% unless otherwise noted

*Inpatient admissions: 54,307; 57,127

*Total operating revenues: $743.6 million; $839.9 million

*Moody's-adjusted net revenue available for debt service: $139.2 million; $154.1 million

*Total debt outstanding: $938 million; $1.072 billion

*Maximum annual debt service (MADS): $54.9 million; $64.4 million

*MADS Coverage based on reported investment income: 2.66 times; 2.11

*Moody's-adjusted MADS Coverage: 2.53 times; 2.39 times

*Debt-to-cash flow: 10.32 times; 9.90 times

*Days cash on hand: 2424 days; 242 days

*Cash-to-debt: 49%; 48%

*Operating margin: 0.1%; 0.8%

*Operating cash flow margin: 14.7%; 14.4%

RATED DEBT (as of November 30, 2009):

Issued by The Health and Educational Facilities Board of the City of Johnson City, Tennessee:

-Series 2009A fixed rate term bonds ($5.6 million outstanding), rated Baa1

-Series 2008A Variable Rate Hospital Revenue Bonds variable rate ($72.8 million outstanding) rated Aa3/VMIG 2 supported by letter of credit with Regions Bank expiring December 14, 2012; Baa1 unenhanced rating

-Series 2008B Variable Rate Hospital Revenue Bonds variable rate ($54.1 million outstanding) rated Aa3/VMIG 2 supported by letter of credit with Regions Bank expiring December 14, 2012; Baa1 unenhanced rating

-Series 2007A Variable Rate Hospital Revenue Bonds ($95.9 million outstanding), joint support rating of Aa3/VMIG 2 with letter of credit from Regions Bank expiring December 31, 2012, Baa1 unenhanced rating

-Series 2007B Variable Rate Hospital Revenue Bonds ($314.2 million outstanding), joint support rating of Aa3/VMIG 2 with letter of credit from Regions Bank expiring December 31, 2012, Baa1 unenhanced rating

-Series 2006A Fixed Rate First Mortgage Revenue Bonds, serial and term bonds ($170.3 million outstanding), rated Baa1

-Series 2001A Fixed Rate Hospital First Mortgage Revenue Term Bonds ($23.9 million outstanding), rated Baa1

-Series 2000A Hospital First Mortgage Revenue Refunding Capital Appreciation Bonds ($26.6 million outstanding), certain bonds insured by MBIA, Baa1 unenhanced rating

-Series 2000C Fixed Rate Hospital First Mortgage Revenue Term Bonds (Taxable) ($35.3 million outstanding), insured by MBIA, Baa1 unenhanced rating

Issued by Industrial Development Authority of Smyth County, Virginia:

-Series 2009B fixed rate term bonds ($5.5 million outstanding), rated Baa1

-Series 2007C Variable Rate Hospital Revenue Bonds ($34.7 million outstanding), joint support rating of Aa3/VMIG2 with letter of credit from Regions Bank expiring December 31, 2012, Baa1 unenhanced rating

Issued by Industrial Development Authority of Washington County, Virginia:

-Series 2009C fixed rate term bonds ($116.0 million outstanding), rated Baa1

Direct Obligation of Mountain States Health Alliance:

-Series 2000D Fixed Rate First Mortgage Term Bonds (Taxable) ($15.2 million outstanding), insured by MBIA, Baa1 unenhanced rating

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The last rating action on Mountain States Health Alliance was on March 6, 2009 when the Baa1 ratings were affirmed with a stable outlook.

The principal methodology used in rating Mountain States Health Alliance was Moody's Rating Methodology: Not-For-Profit Hospitals and Health Systems, published in January 2008 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating Mountain States Health Alliance can also be found in the Rating Methodologies sub-directory on Moody's website.

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New Issue: MOODY'S ASSIGNS Baa1 RATING TO MOUNTAIN STATES HEALTH ALLIANCE'S (TN) $228 MILLION OF SERIES 2010A&B BONDS; OUTLOOK IS STABLE

Global Credit Research - 29 Mar 2010

MOUNTAIN STATES HEALTH ALLIANCE HAS A TOTAL OF $1.0 BILLION OF RATED DEBT TO BE OUTSTANDING

Johnson City Health & Educ. Fac. Bd., TN
Health Care-Hospital
TN

Moody's Rating

ISSUE		RATING
Series 2010A Hospital Refunding Revenue Bonds		Baa1
Sale Amount	$190,220,000	
Expected Sale Date	03/31/10	
Rating Description	Healthcare Revenue Bonds	
Series 2010B Hospital Refunding Revenue Bonds		Baa1
Sale Amount	$37,845,000	
Expected Sale Date	03/31/10	
Rating Description	Healthcare Revenue Bonds	

Moody's Outlook Stable

Opinion

NEW YORK, Mar 29, 2010 -- Moody's Investors Service has assigned Baa1 ratings to Mountain States Health Alliance's (MSHA) $190.2 million of Series 2010A and $37.8 million of Series 2010B fixed rate refunding revenue bonds to be issued by The Health and Educational Facilities Board of the City of Johnson City, TN and the Industrial Development Authority of Smyth County (Virginia), respectively. The outlook remains stable. At this time we are affirming the Baa1 unenhanced ratings on $770 million of rated debt to remain outstanding.

USE OF BOND PROCEEDS: The bond proceeds will be used to (1) refund the outstanding Series 2007A, Series 2007C and Series 2008A bonds, (2) establish a debt service reserve fund, and (3) pay the costs of issuance.

LEGAL SECURITY: The bonds are secured by a security interest in the Pledged Assets (receivables, inventory, equipment, general intangibles, contracts and contract rights, government approvals, fixtures and other personal property, goods, instruments, chattel paper, documents, credits, claims, demands and assets) and a first lien on the Mortgaged Property, which includes the major hospitals, subject to certain permitted liens.

INTEREST RATE DERIVATIVES: MSHA is a party to interest rate swaps and other derivative agreements to establish floating rate exposure and to reduce fixed rate debt service. MSHA holds three basis swaps, two fixed payer swaps and one total return swap with Merrill Lynch Capital Services Inc. (guaranteed by Merrill Lynch & Co) for a total notional amount of $594 million. The fair market value of the swaps at March 18, 2010 was a liability of $14.5 million, against which MSHA posted $1,844 in collateral.

MSHA holds eight additional agreements ($106 million notional amount) with Lehman Brothers Special Financing, Inc. (Lehman) for various notional amounts that are linked fixed payer and total return swaps. Fair market value of the swap at January 31, 2009 was a liability of $11.0 million, against which MSHA has posted $13.2 million of collateral (collateral is not included in unrestricted cash). Lehman filed for bankruptcy and the swaps were terminated effective January 1, 2009. There is a dispute between MSHA and Lehman regarding the cost of such termination, which is currently under discussion. MSHA has stated that it believes that the amount of the posted collateral should be sufficient to pay the cost of the terminations.

In addition, MSHA has two outstanding interest rate swaptions, four float contracts and five forward sale agreements with Bear Stearns Capital Markets, Inc. (guaranteed by Bear Stearns Companies, Inc., acquired by JP Morgan) whereby MSHA received advance payments that have been placed in a guaranteed investment contract as collateral against the agreements (this collateral is not included in unrestricted cash). As of March 18, 2010, liability on the swaptions, float contracts and forward sale agreements exceeded the collateral by $2.4 million. MSHA has the option to terminate the swaptions on July 1, 2011 at a predetermined price equal to the value of the collateral on deposit with Bear Stearns or to hold the swaptions to maturity and let them expire. Given the terms of the agreements, the collateral held against the derivative transactions and MSHA's credit profile and strong liquidity position, we believe the transactions do not detract from the Baa1 rating.

STRENGTHS

*Multi-hospital system with strong and growing leading market share in a large geographic region where the flagship facility serves as a regional referral center offering a wide array of high-end services for hospitals in Tennessee and Virginia

*Multi-year growth in volumes with acquisitions

*Strong and stable operating cash flow margins in the 11.4% to16.7% range in each of the past fifteen audit years, with volume increases contributing to cash flow growth; projected operating cash flow margins remain in the double digits

*Good liquidity position with 242 days cash on hand at fiscal year end (FYE) 2009 (June 30) and 244 days as of December 31, 2009

*Reduction in exposure to variable rate debt and exposure to tenders under letter of credit supported debt, increasing fixed rate debt to 66% from 45% of total debt outstanding; pro forma cash-to-puttable debt at 151%

*Tenured management team

CHALLENGES

*Very high debt burden evidenced by a low 48% cash-to-debt ratio, high 9.9 times debt-to-cash flow ratio and moderate Moody's-adjusted maximum annual debt service coverage of 2.39 times in FY 2009 as compared with Moody's Baa1 medians of 72%, 5.7 times and 3.2 times, respectively

*Capital spending projected to remain high in the near term with major spending on consolidation of two smaller Johnson City facilities into a single replacement facility, and capital commitment for investment into new 80% owned Smyth County Community Hospital and capital commitment for Johnston Memorial Hospital; however, no new debt is currently expected in connection with these projects and several have already been financed with debt in whole or in part;

*Sizable and consistent competition from Wellmont Health System, which holds a close but lesser market share (37% vs. 29%) in the extended 29-county service area and a significantly smaller market share (52% versus 37%) in the 13-county core service area, but has been increasing its presence in the extended service area through acquisition

*High 22.3% TennCare/Medicaid and self-pay load

MARKET POSITION/COMPETITIVE STRATEGY: DOMINANT MARKET POSITION IN JOHNSON CITY, WITH LEADING MARKET POSITION IN 13-COUNTY CORE AREA AND 29-COUNTY EXTENDED SERVICE AREA

MSHA, a multi-hospital system operating ten acute care hospitals and 14 facilities in northeastern Tennessee, southwest Virginia, southeast Kentucky and western North Carolina, gains much credit strength from its dominant 90% market share in Washington County, TN where it operates six of its facilities, including its flagship 583-licensed bed Johnson City Medical Center (JCMC), and is the only provider of acute care services. JCMC includes the 60-licensed bed Quillen Rehabilitation Hospital, providing a complete array of rehabilitative services for brain injury, stroke, and spinal cord injury and the 75-licensed bed Woodridge Hospital offering inpatient psychiatric and substance abuse services (purchased in 2005). MSHA also holds a leading 51.8% market position in its combined 13-county primary and secondary service areas (PSA/SSA), and a leading and consistent 36.6% market share in its 29-county extended service area. Competition is limited to one multi-hospital system (Wellmont Health System) and several small independent rural providers. Wellmont Health System operates four of its eight hospitals in MSHA's core market, garnering a distant 37.4% market share in the core service area, but a close 29.4% market share in the extended 29-county service area. Many of the rural hospitals in the primary and secondary service area are affiliated with MSHA through network affiliations.

JCMC is a regional referral center for northeastern Tennessee offering a full array of acute care services, including one of only five state-designated Level III Regional Perinatal Centers, a Level I trauma center, and performs kidney and pancreatic transplants. Also in Johnson City is 91-licensed bed North Side Hospital offering acute care and skilled nursing services, and 36-licensed bed Johnson City Specialty Hospital offering inpatient and outpatient obstetrical, gynecological and otorhinolaryngologic (ear, nose & throat) services. MSHA also owns Indian Path Medical Center and Pavilion located in Kingsport (Sullivan County), which competes against the much larger Wellmont facilities, Sycamore Shoals Hospital located in Elizabethton (Carter County) with no direct competition, and the designated critical access hospital Johnson County Community Hospital in Johnson County.

MSHA opened its newly constructed free-standing children's hospital in March 2009. It is the region's first free-standing children's hospital. In addition, MSHA is constructing a single 80-bed replacement facility for its North Side Hospital and Johnson City Specialty Hospital facilities. The new hospital will provide much more state-of-the-art care, replacing two much older facilities. Along with the relocation of certain long-term care beds to Quillen and acute care beds to JCMC, the project is estimated to cost $120 million and to be funded 50% from cash flow and 50% from proceeds of the Series 2008 bonds.

In November 2006, MSHA began an expansion strategy in Virginia with the purchase of an 80% interest in 154-licensed general acute care/109 long-term care bed Smyth County Community Hospital (SCCH) located in Marion, Virginia. MSHA committed to $48 million in capital improvements with the acquisition, of which $28 million has yet to be invested. In October 2007, MSHA acquired a 50.1% equity interest in 129-licensed bed Norton Community Hospital and 25-licensed bed Dickenson Community Hospital (Clintwood). The Series 2007 bond issues included $52 million to support capital commitments at these new facilities. Effective January 31, 2008 MSHA acquired 78-licensed bed Russell County Medical Center in Lebanon, Virginia. Approximately $53 million of Series 2008 bond proceeds financed this acquisition and provided funds for capital expenditures. In April 2009 MSHA acquired a 50.1% interest in Johnston Memorial Hospital (revenue bonds rated A3) in Abington, VA, committing to invest $132 million for capital; $100 million of the proceeds from the Series 2009C bonds will be used to fund a portion of this commitment.

MSHA's main competitor, Wellmont Health System, has also expanded with the acquisition of 133-licensed bed Mountainview Regional Medical Center also located in Norton, VA, and 50-bed Lee Regional Medical Center located in Pennington Gap, VA. Wellmont Health System is an eight hospital system with hospitals in TN, VA and KY, some of which compete directly with MSHA facilities.

OPERATING PERFORMANCE: OPERATING CASH FLOW MARGIN REMAINS CONSISTENTLY STRONG

FY 2009 operating profit grew to $6.4 million from $0.4 million the prior year (including capitalized interest of $596,000 and $3.7 million in FY 2009 and FY 2008, respectively), but operating margin remains modest at 0.8%. Operating cash flow increased $12.0 million to $120.8 million to generate a strong 14.4% margin. MSHA's operating cash flow margins remain strong and have consistently ranged between 11.4% and 16.7% in each of the past fifteen audit years. The expansion into Virginia along with volume growth contributed to a very good 13.1% growth in revenues in FY 2009. Projected operating cash flow margins remain in the double digit teens.

Debt-to-cash flow improved in FY 2009 but remains high at 9.90 times (Baa1 median of 5.7 times). Moody's-adjusted MADS coverage is adequate at 2.39 times in FY 2009, but again unfavorable to the Baa1 median of 3.2 times. Management is forecasting for improvement in these ratios with major capital projects completed or near completion through 2011. There are no additional facility expansion plans at this time, and management plans to focus on integrating the new Virginia hospitals into the system. Through the first six months of FY 2010 operating profit improved $4 million over the same period of the prior year and operating cash flow improved $10 million.

BALANCE SHEET POSITION: DEBT LOAD REMAINS HIGH; ABSOLUTE LIQUIDITY GROWTH BUT RELATIVE LIQUIDITY FLAT TO DECLINING

Unrestricted liquidity improved 12% in FY 2009 to $515.1 million from $458.7 million at FYE 2008 despite unfavorable market returns on investments, yet cash on hand remained stable at 242 days due to growth in the expense base with the addition of Johnston Memorial in Virginia. FY 2009 liquidity was unfavorably impacted by the $18 million cash defeasance of part of the Series 2006C bonds, but favorably impacted by a reduction in capital spending from cash flow. Absolute liquidity continued to grow in the first six months of FY 2010 to reach $567 million and cash on hand (annualized) was stable to FYE 2009 at 244 days.

The debt load remains high, reaching $1.072 billion at FYE 2009 with the addition of debt to finance the capital contribution for Johnston Memorial in Virginia and the consolidation of Johnston Memorial's $34 million of outstanding debt into the financial statements. MSHA's debt-to-revenue of 128% at FYE 2009 is one of the highest in our portfolio. Moody's notes that outstanding debt has increased annually since FY 2002, due largely to expansion into Virginia as well as the major capital projects for the new children's hospital and the replacement hospital for Northside and Johnson Specialty. As a result of the high debt load cash-to-debt remains low at 48% at FYE 2009 (Baa1 median of 72%). Management is forecasting for steady, annual improvement in the cash-to-debt ratio. The only potential near term debt plan is to provide up to $30 million of capital funding for Smyth Hospital. Moody's will evaluate the impact of additional debt as funding plans are finalized.

With the current refinancing, MSHA is restructuring its debt portfolio to reduce variable rate risk exposure and risk of tendered bonds by refunding certain variable rate debt instruments. We note that approximately $368 million of outstanding debt is scheduled to remain outstanding as variable rate puttable debt supported by letters of credit (LOCs) that expire in December 2012. MSHA's current liquidity comfortably covers potential puttable debt by 151%. MSHA has 367 days from the provision of a draw for tendered bonds to repay Regions Bank for the draw. Covenants in the LOCs include a maximum annual debt service coverage ratio of no less than 1.3 times for the obligated group, and a days' cash-on-hand ratio for the obligated group. The days cash covenant requires no less than 110 days or a consultant must be brought in, no less than 100 days in any case, and if it falls below 150 days then the debt service reserve funds supported by the LOCs must be fully funded with cash or a letter of credit.

Outlook

The stable outlook reflects our belief that MSHA will continue to generate strong and stable operating cash flow margins to support its high debt load. We believe liquidity will improve barring any major negative fair market value adjustments. Management is considering additional debt in the near-term to support capital investments in recent hospital acquisitions. We will evaluate the rating impact of future debt issues as plans develop.

What could change the rating--UP

Continued growth in operating cash flow to support the high debt load; material improvement in debt measures; regrowth of liquidity; increased diversification of cash flow

What could change the rating--DOWN

Increase in debt load without commensurate increase in cash flow; notable loss in market share; trend of decline in operating cash flow; material decline or loss of supplemental payments for servicing the Medicaid and indigent populations

KEY INDICATORS

Assumptions & Adjustments:

-Based on financial statements for Mountain States Health Alliance

-First number reflects the audit year ended June 30, 2008

-Second number reflects audit year ended June 30, 2009

-Expenses include capitalized interest of $0.6 million and $3.7 million in FY 2009 and FY 2008, respectively

-Investment returns smoothed at 6% unless otherwise noted

*Inpatient admissions: 54,307; 57,127

*Total operating revenues: $743.6 million; $839.9 million

*Moody's-adjusted net revenue available for debt service: $139.2 million; $154.1 million

*Total debt outstanding: $938 million; $1.072 billion

*Maximum annual debt service (MADS): $54.9 million; $64.4 million

*MADS Coverage based on reported investment income: 2.66 times; 2.11

*Moody's-adjusted MADS Coverage: 2.53 times; 2.39 times

*Debt-to-cash flow: 10.32 times; 9.90 times

*Days cash on hand: 2424 days; 242 days

*Cash-to-debt: 49%; 48%

*Operating margin: 0.1%; 0.8%

*Operating cash flow margin: 14.7%; 14.4%

RATED DEBT (as of November 30, 2009):

Issued by The Health and Educational Facilities Board of the City of Johnson City, Tennessee:

-Series 2009A fixed rate term bonds ($5.6 million outstanding), rated Baa1

-Series 2008A Variable Rate Hospital Revenue Bonds variable rate ($72.8 million outstanding; $0 to remain outstanding post financing) rated Aa3/VMIG 2 supported by letter of credit with Regions Bank expiring December 14, 2012; Baa1 unenhanced rating

-Series 2008B Variable Rate Hospital Revenue Bonds variable rate ($54.1 million outstanding) rated Aa3/VMIG 2 supported by letter of credit with Regions Bank expiring December 14, 2012; Baa1 unenhanced rating

-Series 2007A Variable Rate Hospital Revenue Bonds ($95.9 million outstanding; $0 to remain outstanding post financing), joint support rating of Aa3/VMIG 2 with letter of credit from Regions Bank expiring December 31, 2012, Baa1 unenhanced rating

-Series 2007B Variable Rate Hospital Revenue Bonds ($314.2 million outstanding), joint support rating of Aa3/VMIG 2 with letter of credit from Regions Bank expiring December 31, 2012, Baa1 unenhanced rating

-Series 2006A Fixed Rate First Mortgage Revenue Bonds, serial and term bonds ($170.3 million outstanding), rated Baa1

-Series 2001A Fixed Rate Hospital First Mortgage Revenue Term Bonds ($23.9 million outstanding), rated Baa1

-Series 2000A Hospital First Mortgage Revenue Refunding Capital Appreciation Bonds ($26.6 million outstanding), certain bonds insured by MBIA, Baa1 unenhanced rating

-Series 2000C Fixed Rate Hospital First Mortgage Revenue Term Bonds (Taxable) ($35.3 million outstanding), insured by MBIA, Baa1 unenhanced rating

Issued by Industrial Development Authority of Smyth County, Virginia:

-Series 2009B fixed rate term bonds ($5.5 million outstanding), rated Baa1

-Series 2007C Variable Rate Hospital Revenue Bonds ($34.7 million outstanding; $0 to remain outstanding post financing), joint support rating of Aa3/VMIG2 with letter of credit from Regions Bank expiring December 31, 2012, Baa1 unenhanced rating

Issued by Industrial Development Authority of Washington County, Virginia:

-Series 2009C fixed rate term bonds ($116.0 million outstanding), rated Baa1

Direct Obligation of Mountain States Health Alliance:

-Series 2000D Fixed Rate First Mortgage Term Bonds (Taxable) ($15.2 million outstanding), insured by MBIA, Baa1 unenhanced rating

CONTACTS

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Underwriter: Jeff Newhams, Managing Director, BofA Merrill Lynch (212) 449-0641

Financial Advisor: Steve Pischke, President, The Public Advisory Corporation (540) 687-6755

The rating assigned to Mountain States Health Alliance was issued on Moody's municipal rating scale. Moody's has announced its plans to recalibrate all U.S. municipal ratings to its global scale and therefore, upon implementation of the methodology published in conjunction with this initiative, the rating will be recalibrated to a global scale rating comparable to other credits with a similar risk profile. Market participants should not view the recalibration of municipal ratings as rating upgrades, but rather as a recalibration of the ratings to a different rating scale. This recalibration does not reflect an improvement in credit quality or a change in our credit opinion for rated municipal debt issuers. For further details regarding the recalibration please visit www.moodys.com/gsr.

The principal methodology used in rating Mountain States Health Alliance was Moody's Rating Methodology: Not-For-Profit Hospitals and Health Systems, published in January 2008 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating Mountain States Health Alliance can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action on Mountain States Health Alliance was on December 22, 2009 when the Baa1 ratings were affirmed with a stable outlook.

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MOODY'S INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa3/VMIG 1 LETTER OF CREDIT-BACKED RATING TO THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF CITY OF JOHNSON CITY, TN HOSPITAL REVENUE BONDS (MOUNTAIN STATES HEALTH ALLIANCE) SERIES 2007 B-3

Global Credit Research - 29 Sep 2010

$58,5 MILLION IN DEBT AFFECTED. THE RATING IS BASED ON THE RATING OF MIZUHO CORPORATE BANK, LTD.

Johnson City Health & Educ. Fac. Bd., TN
Fully Supported
TN

Moody's Rating

ISSUE	RATING
Ser. 2007B-3	Aa3/VMIG 1

Sale Amount	$58,500,000
Expected Sale Date	09/29/10
Rating Description	LOC

Opinion

NEW YORK, Sep 29, 2010 -- Moody's Investors Service has assigned Aa3/VMIG 1 rating to the Health and Educational Facilities Board of City of Johnson City, TN Hospital Revenue Bonds (Mountain States Health Alliance) Series 2007 B-3 (the Bonds)

RATING RATIONALE

The rating is based upon the irrevocable direct pay letter of credit provided by Mizuho Corporate Bank, Ltd. (the Bank), the structure of the transaction, which ensures timely debt service and purchase price payments to investors; and Moody's evaluation of the creditworthiness of the Bank issuing the letter of credit.

Mizuho Corporate Bank, Ltd. is currently rated Aa3 for long-term bank deposits and Prime-1 for short-term bank deposits.

Interest Rate Modes and Payment

The Bonds will bear interest in a weekly rate mode and interest will be paid on the first business day of each month. The bond trust indenture permits conversion of the Bonds, in whole, to a medium term or fixed interest rate period and upon any conversion the Bonds will be subject to mandatory purchase. The rating applies to the Bonds bearing interest in the weekly period only.

Additional Bonds

No additional bonds shall be issued under the bond trust indenture.

Flow of Funds

The trustee is instructed to draw under the LOC on or before 4:00 p.m., New York City time, on the business day prior to any principal and interest payment date, in accordance with the LOC so as to receive moneys on the next business day in amount sufficient for the payment in full of the principal and interest due on the Bonds. The trustee is also instructed to draw under the LOC by 11:30 a.m., New York City time, on each purchase date to the extent remarketing proceeds are insufficient. Bonds which are purchased by the Bank due to a failed remarketing are held by the trustee and will not be released until the trustee has received confirmation from the Bank stating that the LOC has been reinstated in the amount of the purchase price drawn for such Bonds.

Letter of Credit

The LOC is sized for full principal plus 37 days of interest at the maximum rate applicable to the Bonds (12%) calculated based on 360 days year and will provide coverage for the Bonds while they bear interest in the weekly rate mode.

Draws on the Letter of Credit

Conforming draws for principal and interest presented to the Bank at or before 4:00 p.m., New York City time, on a business day, will be honored by the Bank no later than 2:30 p.m., New York City time, on the next business day. Conforming draws for purchase price presented to the Bank at or before 12:00 noon, New York City time, on a business day, will be honored by such Bank no later than 2:30 p.m., New York City time, on such business day.

Substitution of the Letter of Credit

The Bonds will be subject to mandatory tender on the fifth (5th) business day prior to substitution of the LOC. Draws for purchase price upon the substitution will be made under the existing LOC and the existing LOC will not be surrendered to the Bank for cancellation until after such tender draw is honored.

Reinstatement of Interest Draws

Draws made under the LOC for interest shall be automatically reinstated at the close of business on the date of payment of such interest drawing unless the trustee receives from the Bank a notice by 4:00 p.m. on such payment date stating that the Bank has not been reimbursed for such drawing or that an event of default under the reimbursement agreement has occurred. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Reimbursement Agreement Defaults

Upon an event of default under the reimbursement agreement, the Bank may direct the trustee to accelerate the Bonds. Upon receipt of such notice, the trustee will declare the principal of and accrued interest on the Bonds immediately due and payable. Interest will cease to accrue one day following the date on which the Bonds are declared immediately due and payable. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Bond Indenture Events of Default Related to Payment

Upon a failure to pay when due the principal or interest or the purchase price on the Bonds, the trustee may, and at the written request of the Bank or the holders of more than two-thirds (2/3) in aggregate principal amount of the outstanding Bonds shall declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Expiration / Termination of the Letter of Credit

The LOC shall terminate upon the earliest to occur of: (i) September 29, 2013, the stated expiration date; (ii) the business day following conversion of an interest rate of the Bonds to a rate other than a weekly interest rate; (iii) the day which is fifteen (15) days after trustee's receipt of a notice from the Bank stating that an event of default under the reimbursement agreement has occurred and directing acceleration of the Bonds, (iv) the date an acceleration drawing is honored by the Bank; (v) receipt by the Bank of a certificate from the trustee stating that (A) no Bonds remain outstanding and all draws under the LOC have been made and honored, or (B) a substitute LOC has been issued; or (vi) the date on which a stated maturity drawing that causing the stated amount of the LOC to be reduced to $0 is honored by the Bank.

Optional Tenders

Bondholders may optionally tender their Bonds on any business day during the weekly rate mode with five (5) business days prior written notice to the trustee and the remarketing agent.

Mandatory Purchases

The Bonds are subject to mandatory purchase on: (i) each interest rate conversion date (ii) any interest reset date, (iii) the fifth (5th) business day prior to the effective date of an alternate letter of credit or (iv) the second (2nd) business day prior to the expiration date of the letter of credit.

What Could Change the Rating-Up

Long-term: The long-term rating on the Bonds would be raised if the long-term bank deposits rating on the Bank was upgraded.

Short-term: Not applicable.

What Could Change the Rating-Down

Long-Term: The long-term rating on the Bonds would be lowered if the long-term bank deposit rating on the Bank was downgraded.

Short-Term: The short-term rating on the Bonds would be lowered if the short-term bank deposit rating on the Bank was downgraded.

Contacts

Remarketing Agent: Bank of America Merrill Lynch

Trustee: The Bank of New York Mellon Trust Company

The principal methodology used in rating this issue was Moody's Rating Methodology for Letter of Credit Supported Transactions rating methodology published in August 2005. Other methodologies and factors that may have been considered in the process of rating this issue can also be found on Moody's website.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings and public information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of assigning a credit rating.

MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa3 (ON WATCH FOR DOWNGRADE)/VMIG 1 LETTER OF CREDIT-BACKED RATING TO THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF CITY OF JOHNSON CITY, TN HOSPITAL REVENUE BONDS (MOUNTAIN STATES HEALTH ALLIANCE) SERIES 2007 B-2

Global Credit Research - 29 Sep 2010

$105.0 MILLION IN DEBT AFFECTED. LONG-TERM JDA RATING BASED ON LONG-TERM RATINGS OF PNC BANK, N.A. AND MOUNTAIN STATES HEALTH ALLIANCE

Johnson City Health & Educ. Fac. Bd., TN
Fully Supported
TN

Moody's Rating

ISSUE	RATING
Ser. 2007B-2 (Taxable)	Aa3/VMIG 1

Sale Amount	$105,000,000
Expected Sale Date	09/29/10
Rating Description	Joint Default Analysis

Opinion

NEW YORK, Sep 29, 2010 -- Moody's Investors Service has assigned Aa3 (on watch for downgrade)/VMIG 1 rating to the Health and Educational Facilities Board of City of Johnson City, TN Hospital Revenue Bonds (Mountain States Health Alliance) Series 2007 B-2 (the Bonds)

RATING RATIONALE

The long-term rating is based on a joint default analysis (JDA) which reflects Moody's approach to rating jointly supported transactions. The JDA rating is based upon the long-term rating of PNC Bank, National Association (Bank) as provider of the letter of credit (LOC); the underlying rating of the Bonds; and the structure and legal protections of the transaction which ensures timely debt service payments to investors. The timely payment of purchase price is reflected in the short-term rating of the Bonds. The short-term rating of the Bonds is based upon the short-term rating of the Bank as provider of the letter of credit.

PNC Bank, National Association is currently rated A1 for long-term other senior obligations (OSO) and Prime-1 for short-term OSO. The long-term rating of the Bank is currently on watch for downgrade. Moody's maintains Baa1 underlying rating on the Bonds.

Since a loss to investors would occur only if both the Bank and Mountain States Health Alliance (the Borrower) default in payment, Moody's has assigned the long-term portion of the rating based upon the joint probability of default by both parties. In determining the joint probability of default, Moody's considers the level of default dependence between the Bank and the Borrower. Moody's has determined that there is a high level of default dependence between the Bank and the Borrower. As a result, the joint probability of default for the Bank and the Borrower results in a credit risk consistent with a JDA rating of Aa3 (on watch for downgrade) for the Bonds.

Interest Rate Modes and Payment

The Bonds will bear interest in a weekly rate mode and interest will be paid on the first business day of each month. The bond trust indenture permits conversion of the Bonds, in whole, to a medium term or fixed interest rate period and upon any conversion the Bonds will be subject to mandatory purchase. The rating applies to the Bonds bearing interest in the weekly period only.

Additional Bonds

No additional bonds shall be issued under the bond trust indenture.

Flow of Funds

The trustee is instructed to draw under the LOC on or before 4:00 p.m., New York City time, on the business day prior to any principal and interest payment date, in accordance with the LOC so as to receive moneys on the next business day in amount sufficient for the payment in full of the principal and interest due on the Bonds. If the Bank fails to honor a draw under the applicable LOC, the trustee shall immediately notify the Borrower and demand payment of such amount. The trustee is also instructed to draw under the LOC by 11:30 a.m., New York City time, on each purchase date to the extent remarketing proceeds are insufficient. Bonds which are purchased by the Bank due to a failed remarketing are held by the trustee and will not be released until the trustee has received confirmation from the Bank stating that the LOC has been reinstated in the amount of the purchase price drawn for such Bonds.

Letter of Credit

The LOC is sized for full principal plus 37 days of interest at the maximum rate applicable to the Bonds (12%) calculated based on 360 days year and will provide coverage for the Bonds while they bear interest in the weekly rate mode.

Draws on the Letter of Credit

Conforming draws for principal and interest presented to the Bank at or before 4:00 p.m., Pittsburgh, PA time, on a business day, will be honored by the Bank no later than 2:30 p.m., Pittsburgh, PA time, on the next business day. Conforming draws for purchase price presented to the Bank at or before 12:00 noon, Pittsburgh, PA time, on a business day, will be honored by such Bank no later than 2:30 p.m., Pittsburgh, PA time, on such business day.

Substitution of the Letter of Credit

The Bonds will be subject to mandatory tender on the fifth (5th) business day prior to substitution of the LOC. Draws for purchase price upon the substitution will be made under the existing LOC and the existing LOC will not be surrendered to the Bank for cancellation until after such tender draw is honored.

Reinstatement of Interest Draws

Draws made under the LOC for interest shall be automatically reinstated at the close of business on the date of payment of such interest drawing unless the trustee receives from the Bank a notice by 4:00 p.m. on such payment date stating that the Bank has not been reimbursed for such drawing or that an event of default under the reimbursement agreement has occurred. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Reimbursement Agreement Defaults

Upon an event of default under the reimbursement agreement, the Bank may direct the trustee to accelerate the Bonds. Upon receipt of such notice, the trustee will declare the principal of and accrued interest on the Bonds immediately due and payable. Interest will cease to accrue one business day following the date on which the Bonds are declared immediately due and payable. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Bond Indenture Events of Default Related to Payment

Upon a failure to pay when due the principal or interest or the purchase price on the Bonds, the trustee may, and at the written request of the Bank or the holders of more than two-thirds (2/3) in aggregate principal amount of the outstanding Bonds shall declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Expiration / Termination of the Letter of Credit

The LOC shall terminate upon the earliest to occur of: (i) September 29, 2013, the stated expiration date; (ii) the business day following conversion of an interest rate of the Bonds to a rate other than a weekly interest rate; (iii) the day which is fifteen (15) days after trustee's receipt of a notice from the Bank stating that an event of default under the reimbursement agreement has occurred and directing acceleration of the Bonds, (iv) the date an acceleration drawing is honored by the Bank; (v) receipt by the Bank of a certificate from the trustee stating that (A) no Bonds remain outstanding and all draws under the LOC have been made and honored, or (B) a substitute LOC has been issued; or (vi) the date on which a stated maturity drawing that causing the stated amount of the LOC to be reduced to $0 is honored by the Bank.

Optional Tenders

Bondholders may optionally tender their Bonds on any business day during the weekly rate mode with five (5) business days prior written notice to the trustee and the remarketing agent.

Mandatory Purchases

The Bonds are subject to mandatory purchase on: (i) each interest rate conversion date (ii) any interest reset date, (iii) the fifth (5th) business day prior to the effective date of an alternate letter of credit or (iv) the second (2nd) business day prior to the expiration date of the letter of credit.

What Could Change the Rating-Up

Long-Term: the long-term rating on the applicable series of Bonds could be upgraded if the long-term OSO rating of the Bank or the long-term rating of the Borrower was upgraded, or if

there was a decrease in the level of default dependence between the Bank and the Borrower.

Short-Term: N/A

What Could Change the Rating-Down

Long-Term: the long-term rating on the Bonds could be lowered if the long term OSO rating of the Bank or the long-term rating of the Borrower was downgraded, or if there is an increase in the level of default dependence between the Bank and the Borrower.

Short-Term: the short-term rating on the Bonds would be lowered if the short-term OSO rating, on the Bank was downgraded.

Contacts

Remarketing Agent: Bank of America Merrill Lynch

Trustee: The Bank of New York Mellon Trust Company

The principal methodologies used in rating this issue were Moody's Rating Methodology Letter of Credit Supported Transactions published in August 2005 and Applying Global Joint Default Analysis to Letter of Credit Backed Transactions in the U.S. Public Finance Sector published in September 2010. Other methodologies and factors that may have been considered in the process of rating this issue can also be found on Moody's website.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings and public information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of assigning a credit rating.

MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.
MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

MOODY'S
INVESTORS SERVICE

Rating Update: MOODY'S ASSIGNS Aa1 (ON WATCH FOR DOWNGRADE)/VMIG 1 LETTER OF CREDIT-BACKED RATING TO THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF CITY OF JOHNSON CITY, TN HOSPITAL REVENUE BONDS (MOUNTAIN STATES HEALTH ALLIANCE) SERIES 2007 B-1

Global Credit Research - 29 Sep 2010

$144.4 MILLION IN DEBT AFFECTED. LONG-TERM JDA RATING BASED ON LONG-TERM RATINGS OF U.S BANK, N.A. AND MOUNTAIN STATES HEALTH ALLIANCE

Johnson City Health & Educ. Fac. Bd., TN
Fully Supported
TN

Opinion

NEW YORK, Sep 29, 2010 -- Moody's Investors Service has assigned Aa1 (on watch for downgrade)/VMIG 1 rating to the Health and Educational Facilities Board of City of Johnson City, TN Hospital Revenue Bonds (Mountain States Health Alliance) Series 2007 B-1 (the Bonds)

RATING RATIONALE

The long-term rating is based on a joint default analysis (JDA) which reflects Moody's approach to rating jointly supported transactions. The JDA rating is based upon the long-term rating of U.S. Bank National Association (Bank) as provider of the letter of credit (LOC); the underlying rating of the Bonds; and the structure and legal protections of the transaction which ensures timely debt service payments to investors. The timely payment of purchase price is reflected in the short-term rating of the Bonds. The short-term rating of the Bonds is based upon the short-term rating of the Bank as provider of the letter of credit.

U.S. Bank National Association is currently rated Aa1 for long-term other senior obligations (OSO) and Prime-1 for short-term OSO. The long-term rating of the Bank is currently on watch for downgrade. Moody's maintains Baa1 underlying rating on the Bonds.

Since a loss to investors would occur only if both the Bank and Mountain States Health Alliance (the Borrower) default in payment, Moody's has assigned the long-term portion of the rating based upon the joint probability of default by both parties. In determining the joint probability of default, Moody's considers the level of default dependence between the Bank and the Borrower. Moody's has determined that there is a high level of default dependence between the Bank and the Borrower. As a result, the joint probability of default for the Bank and the Borrower results in a credit risk consistent with a JDA rating of Aa1 (on watch for downgrade) for the Bonds.

Interest Rate Modes and Payment

The Bonds will bear interest in a weekly rate mode and interest will be paid on the first business day of each month. The bond trust indenture permits conversion of the Bonds, in whole, to a medium term or fixed interest rate period and upon any conversion the Bonds will be subject to mandatory purchase. The rating applies to the Bonds bearing interest in the weekly period only.

Additional Bonds

No additional bonds shall be issued under the bond trust indenture.

Flow of Funds

The trustee is instructed to draw under the LOC on or before 4:00 p.m., New York City time, on the business day prior to any principal and interest payment date, in accordance with the LOC so as to receive moneys on the next business day in amount sufficient for the payment in full of the principal and interest due on the Bonds. If the Bank fails to honor a draw under the applicable LOC, the trustee shall immediately notify the Borrower and demand payment of such amount. The trustee is also instructed to draw under the LOC by 11:30 a.m., New York City time, on each purchase date to the extent remarketing proceeds are insufficient. Bonds which are purchased by the Bank due to a failed remarketing are held by the trustee and will not be released until the trustee has received confirmation from the Bank stating that the LOC has been reinstated in the amount of the purchase price drawn for such Bonds.

Letter of Credit

The LOC is sized for full principal plus 37 days of interest at the maximum rate applicable to the Bonds (12%) calculated based on 360 days year and will provide coverage for the Bonds while they bear interest in the weekly rate mode.

Draws on the Letter of Credit

Conforming draws for principal and interest presented to the Bank at or before 3:00 p.m., St. Louis, Missouri time, on a business day, will be honored by the Bank no later than 1:30 p.m., St. Louis, Missouri time, on the next business day. Conforming draws for purchase price presented to the Bank at or before 11:00 a.m., St. Louis, Missouri time, on a business day, will be honored by such Bank no later than 1:30 p.m., St. Louis, Missouri time, on such business day.

Substitution of the Letter of Credit

The Bonds will be subject to mandatory tender on the fifth (5th) business day prior to any substitution of the LOC. Draws for purchase price upon the substitution will be made under the existing LOC and the existing LOC will not be surrendered to the Bank for cancellation until after such tender draw is honored.

Reinstatement of Interest Draws

Draws made under the LOC for interest shall be automatically reinstated at the close of business on the date of payment of such interest drawing unless the trustee receives from the Bank a notice by 4:00 p.m. on such payment date stating that the Bank has not been reimbursed for such drawing or that an event of default under the reimbursement agreement has occurred. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Reimbursement Agreement Defaults

Upon an event of default under the reimbursement agreement, the Bank may direct the trustee to accelerate the Bonds. Upon receipt of such notice, the trustee will declare the principal of and accrued interest on the Bonds immediately due and payable. Interest will cease to accrue one day following the date on which the Bonds are declared immediately due and payable. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Bond Indenture Events of Default Related to Payment

Upon a failure to pay when due the principal or interest or the purchase price on the Bonds, the trustee may, and at the written request of the Bank or the holders of more than two-thirds (2/3) in aggregate principal amount of the outstanding Bonds shall declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Expiration / Termination of the Letter of Credit

The LOC shall terminate upon the earliest to occur of: (i) September 29, 2013, the stated expiration date; (ii) the business day following conversion of an interest rate of the Bonds to a rate other than a weekly interest rate; (iii) the day which is fifteen (15) days after trustee's receipt of a notice from the Bank stating that an event of default under the reimbursement agreement has occurred and directing acceleration of the Bonds, (iv) the date an acceleration drawing is honored by the Bank; (v) receipt by the Bank of a certificate from the trustee stating that (A) no Bonds remain outstanding and all draws under the LOC have been made and honored, or (B) a substitute LOC has been issued; or (vi) the date on which a stated maturity drawing that causing the stated amount of the LOC to be reduced to $0 is honored by the Bank.

Optional Tenders

Bondholders may optionally tender their Bonds on any business day during the weekly rate mode with five (5) business days prior written notice to the trustee and the remarketing agent.

Mandatory Purchases

The Bonds are subject to mandatory purchase on: (i) each interest rate conversion date (ii) any interest reset date, (iii) the fifth (5th) business day prior to the effective date of an alternate letter of credit or (iv) the second (2nd) business day prior to the expiration date of the letter of credit.

What Could Change the Rating-Up

Long-Term: the long-term rating on the applicable series of Bonds could be upgraded if the long-term OSO rating of the Bank or the long-term rating of the Borrower was upgraded.

Short-Term: N/A

What Could Change the Rating-Down

Long-Term: the long-term rating on the Bonds could be lowered if the long term OSO rating of the Bank or the long-term rating of the Borrower was downgraded.

Short-Term: the short-term rating on the Bonds would be lowered if the short-term OSO rating, on the Bank was downgraded.

Contacts

Remarketing Agent: Bank of America Merrill Lynch

Trustee: The Bank of New York Mellon Trust Company

The principal methodologies used in rating this issue were Letter of Credit Supported Transactions published in August 2005 and Moody's Approach to Applying the Joint Support Methodology to Rating Letter of Credit-Supported Bonds published in May 2003. Other methodologies and factors that may have been considered in the process of rating this issue can also be found on Moody's website.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings and public information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of maintaining a credit rating.

MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.
MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

Moody's
INVESTORS SERVICE

Rating Update: MOODY'S UPGRADES TO Aa1 (ON WATCH FOR DOWNGRADE)/VMIG 1 FROM A3/VMIG 2 LETTER OF CREDIT-BACKED RATING OF THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF CITY OF JOHNSON CITY, TN HOSPITAL REVENUE BONDS (MOUNTAIN STATES HEALTH ALLIANCE) SERIES 2008A

Global Credit Research - 29 Sep 2010

$13.245 MILLION IN DEBT AFFECTED. LONG-TERM JDA RATING IS BASED ON LONG-TERM RATINGS OF U.S BANK, N.A. AND MOUNTAIN STATES HEALTH ALLIANCE

Johnson City Health & Educ. Fac. Bd., TN
Fully Supported
TN

Opinion

NEW YORK, Sep 29, 2010 -- Moody's Investors Service has upgraded to Aa1 (on watch for downgrade)/VMIG 1 from A3/VMIG 2 rating of The Health and Educational Facilities Board of City of Johnson City, TN Hospital Revenue Bonds (Mountain States Health Alliance) Series 2008A (the Bonds) in conjunction with the substitution of the current letter of credit supporting the Bonds provided by Regions Bank with an alternate irrevocable direct-pay letter of credit (LOC) provided by U.S. Bank National Association (Bank).

RATING RATIONALE

The long-term rating is based on a joint default analysis (JDA) which reflects Moody's approach to rating jointly supported transactions. The JDA rating is based upon the long-term rating of the Bank as provider of the letter of credit; the underlying rating of the Bonds; and the structure and legal protections of the transaction which ensures timely debt service payments to investors. The timely payment of purchase price is reflected in the short-term rating of the Bonds. The short-term rating of the Bonds is based upon the short-term rating of the Bank as provider of the letter of credit.

U.S. Bank National Association is currently rated Aa1 for long-term other senior obligations (OSO) and Prime-1 for short-term OSO. The long-term rating of the Bank is currently on watch for downgrade. Moody's maintains Baa1 underlying rating on the Bonds.

Since a loss to investors would occur if both the Bank and Mountain States Health Alliance (the Borrower) default in payment, Moody's has assigned the long-term portion of the rating based upon the joint probability of default by both parties. In determining the joint probability of default, Moody's considers the level of default dependence between the Bank and the Borrower. Moody's has determined that there is a high level of default dependence between the Bank and the Borrower. As a result, the joint probability of default for the Bank and the Borrower results in a credit risk consistent with a JDA rating of Aa1 (on watch for downgrade) for the Bonds.

Interest Rate Modes and Payment

The Bonds will continue to bear interest in a weekly rate mode and interest will be paid on the first business day of each month. The bond trust indenture permits conversion of the Bonds, in whole, to a medium term or fixed interest rate period and upon any conversion the Bonds will be subject to mandatory purchase. The rating applies to the Bonds bearing interest in the weekly period only.

Additional Bonds

No additional bonds shall be issued under the bond trust indenture.

Flow of Funds

The trustee is instructed to draw under the LOC on or before 4:00 p.m., New York City time, on the business day prior to any principal and interest payment date, in accordance with the LOC so as to receive moneys on the next business day in amount sufficient for the payment in full of the principal and interest due on the Bonds. If the Bank fails to honor a draw under the applicable LOC, the trustee shall immediately notify the Borrower and demand payment of such amount. The trustee is also instructed to draw under the LOC by 11:30 a.m., New York City time, on each purchase date to the extent remarketing proceeds are insufficient. Bonds which are purchased by the Bank due to a failed remarketing are held by the trustee and will not be released until the trustee has received confirmation from the Bank stating that the LOC has been reinstated in the amount of the purchase price drawn for such Bonds.

Letter of Credit

The LOC is sized for full principal plus 37 days of interest at the maximum rate applicable to the Bonds (12%) calculated based on 360 days year and will provide coverage for the Bonds while they bear interest in the weekly rate mode.

Draws on the Letter of Credit

Conforming draws for principal and interest presented to the Bank at or before 3:00 p.m., St. Louis, Missouri time, on a business day, will be honored by the Bank no later than 1:30 p.m., St. Louis, Missouri time, on the next business day. Conforming draws for purchase price presented to the Bank at or before 11:00 a.m., St. Louis, Missouri time, on a business day, will be honored by such Bank no later than 1:30 p.m., St. Louis, Missouri time, on such business day.

Substitution of the Letter of Credit

The Bonds will be subject to mandatory tender on the fifth (5th) business day prior to substitution of the LOC. Draws for purchase price upon the substitution will be made under the existing LOC and the existing LOC will not be surrendered to the Bank for cancellation until after such tender draw is honored.

Reinstatement of Interest Draws

Draws made under the LOC for interest shall be automatically reinstated at the close of business on the date of payment of such interest drawing unless the trustee receives from the Bank a notice by 4:00 p.m. on such payment date stating that the Bank has not been reimbursed for such drawing or that an event of default under the reimbursement agreement has occurred. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Reimbursement Agreement Defaults

Upon an event of default under the reimbursement agreement, the Bank may direct the trustee to accelerate the Bonds. Upon receipt of such notice, the trustee will declare the principal of and accrued interest on the Bonds immediately due and payable. Interest will cease to accrue one day following the date on which the Bonds are declared immediately due and payable. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Bond Indenture Events of Default Related to Payment

Upon a failure to pay when due the principal or interest or the purchase price on the Bonds, the trustee may, and at the written request of the Bank or the holders of more than two-thirds (2/3) in aggregate principal amount of the outstanding Bonds shall declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Expiration / Termination of the Letter of Credit

The LOC shall terminate upon the earliest to occur of: (i) September 29, 2013, the stated expiration date; (ii) the business day following conversion of an interest rate of the Bonds to a rate other than a weekly interest rate; (iii) the day which is fifteen (15) days after trustee's receipt of a notice from the Bank stating that an event of default under the reimbursement agreement has occurred and directing acceleration of the Bonds, (iv) the date an acceleration drawing is honored by the Bank; (v) receipt by the Bank of a certificate from the trustee stating that (A) no Bonds remain outstanding and all draws under the LOC have been made and honored, or (B) a substitute

LOC has been issued; or (vi) the date on which a stated maturity drawing that causing the stated amount of the LOC to be reduced to $0 is honored by the Bank.

Optional Tenders

Bondholders may optionally tender their Bonds on any business day during the weekly rate mode with five (5) business days prior written notice to the trustee and the remarketing agent.

Mandatory Purchases

The Bonds are subject to mandatory purchase on: (i) each interest rate conversion date (ii) any interest reset date, (iii) the fifth (5th) business day prior to the effective date of an alternate letter of credit or (iv) the second (2nd) business day prior to the expiration date of the letter of credit.

What Could Change the Rating-Up

Long-Term: the long-term rating on the applicable series of Bonds could be upgraded if the long-term OSO rating of the Bank or the long-term rating of the Borrower was upgraded.

Short-Term: N/A

What Could Change the Rating-Down

Long-Term: the long-term rating on the Bonds could be lowered if the long term OSO rating of the Bank or the long-term rating of the Borrower was downgraded.

Short-Term: the short-term rating on the Bonds would be lowered if the short-term OSO rating, on the Bank was downgraded.

Contacts

Remarketing Agent: Bank of America Merrill Lynch

Trustee: The Bank of New York Mellon Trust Company

The principal methodologies used in rating this issue were Moody's Rating Methodology Letter of Credit Supported Transactions published in August 2005 and Applying Global Joint Default Analysis to Letter of Credit Backed Transactions in the U.S. Public Finance Sector published in September 2010. Other methodologies and factors that may have been considered in the process of rating this issue can also be found on Moody's website.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings and public information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of maintaining a credit rating.

MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

MOODY'S
INVESTORS SERVICE

Rating Update: MOODY'S AFFIRMS Aa3/VMIG 1 LETTER OF CREDIT-BACKED RATING TO THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF CITY OF JOHNSON CITY, TN HOSPITAL REVENUE BONDS (MOUNTAIN STATES HEALTH ALLIANCE) SERIES 2007 B-3

Global Credit Research - 25 Oct 2010

$58.5 MILLION IN DEBT AFFECTED. LONG-TERM JDA RATING BASED ON LONG-TERM RATINGS OF MIZUHO CORPORATE BANK LTD. AND MOUNTAIN STATES HEALTH ALLIANCE

Johnson City Health & Educ. Fac. Bd., TN
Fully Supported
TN

Opinion

NEW YORK, Oct 25, 2010 -- Moody's Investors Service has affirmed Aa3/VMIG 1 rating currently assigned to the Health and Educational Facilities Board of City of Johnson City, TN Hospital Revenue Bonds (Mountain States Health Alliance) Series 2007 B-3 (the Bonds) in connection with the application of the joint default analysis methodology.

RATING RATIONALE

The long term rating which was previously based on the long-term rating of the Bank will now be based on a joint default analysis (JDA) which reflects Moody's approach to rating jointly supported transactions. The JDA rating is based upon the long-term rating of Mizuho Corporate Bank, LTD (Bank) as provider of the letter of credit (LOC); the underlying rating of the Bonds; and the structure and legal protections of the transaction which ensures timely debt service payments to investors. The timely payment of purchase price is reflected in the short-term rating of the Bonds. The short-term rating of the Bonds is based upon the short-term rating of the Bank as provider of the letter of credit.

Mizuho Corporate Bank, LTD is currently rated Aa3 for long-term bank deposits and Prime-1 for short-term bank deposits. Moody's maintains Baa1 underlying rating on the Bonds.

Since a loss to investors would occur only if both the Bank and Mountain States Health Alliance (the Borrower) default in payment, Moody's has assigned the long-term portion of the rating based upon the joint probability of default by both parties. In determining the joint probability of default, Moody's considers the level of default dependence between the Bank and the Borrower. Moody's has determined that there is a high level of default dependence between the Bank and the Borrower. As a result, the joint probability of default for the Bank and the Borrower results in a credit risk consistent with a JDA rating of Aa3 for the Bonds.

Interest Rate Modes and Payment

The Bonds will bear interest in a weekly rate mode and interest will be paid on the first business day of each month. The bond trust indenture permits conversion of the Bonds, in whole, to a medium term or fixed interest rate period and upon any conversion the Bonds will be subject to mandatory purchase. The rating applies to the Bonds bearing interest in the weekly period only.

Additional Bonds

No additional bonds shall be issued under the bond trust indenture.

Flow of Funds

The trustee is instructed to draw under the LOC on or before 4:00 p.m., New York City time, on the business day prior to any principal and interest payment date, in accordance with the LOC so as to receive moneys on the next business day in amount sufficient for the payment in full of the principal and interest due on the Bonds. If the Bank fails to honor a draw under the LOC, the trustee shall immediately notify the Borrower and demand payment of such amount. The trustee is also instructed to draw under the LOC by 11:30 a.m., New York City time, on each purchase date to the extent remarketing proceeds are insufficient. Bonds which are purchased by the Bank due to a failed remarketing are held by the trustee and will not be released until the trustee has received confirmation from the Bank stating that the LOC has been reinstated in the amount of the purchase price drawn for such Bonds.

Letter of Credit

The LOC is sized for full principal plus 37 days of interest at the maximum rate applicable to the Bonds (12%) calculated based on 360 days year and will provide coverage for the Bonds while they bear interest in the weekly rate mode.

Draws on the Letter of Credit

Conforming draws for principal and interest presented to the Bank at or before 4:00 p.m., New York City time, on a business day, will be honored by the Bank no later than 2:30 p.m., New York City time, on the next business day. Conforming draws for purchase price presented to the Bank at or before 12:00 noon, New York City time, on a business day, will be honored by such Bank no later than 2:30 p.m., New York City time, on such business day.

Substitution of the Letter of Credit

The Bonds will be subject to mandatory tender on the fifth (5th) business day prior to substitution of the LOC. Draws for purchase price upon the substitution will be made under the existing LOC and the existing LOC will not be surrendered to the Bank for cancellation until after such tender draw is honored.

Reinstatement of Interest Draws

Draws made under the LOC for interest shall be automatically reinstated at the close of business on the date of payment of such interest drawing unless the trustee receives from the Bank a notice by 4:00 p.m. New York City time, on such payment date stating that the Bank has not been reimbursed for such drawing or that an event of default under the reimbursement agreement has occurred. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Reimbursement Agreement Defaults

Upon an event of default under the reimbursement agreement, the Bank may direct the trustee to accelerate the Bonds. Upon receipt of such notice, the trustee will declare the principal of and accrued interest on the Bonds immediately due and payable. Interest will cease to accrue one day following the date on which the Bonds are declared immediately due and payable. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Bond Indenture Events of Default Related to Payment

Upon a failure to pay when due the principal or interest or the purchase price on the Bonds, the trustee may, and at the written request of the Bank or the holders of more than two-thirds (2/3) in aggregate principal amount of the outstanding Bonds shall declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Expiration / Termination of the Letter of Credit

The LOC shall terminate upon the earliest to occur of: (i) September 29, 2013, the stated expiration date; (ii) the business day following conversion of an interest rate of the Bonds to a rate other than a weekly interest rate; (iii) the day which is fifteen (15) days after trustee's receipt of a notice from the Bank stating that an event of default under the reimbursement agreement has occurred and directing acceleration of the Bonds, (iv) the date an acceleration drawing is honored by the Bank; (v) receipt by the Bank of a certificate from the trustee stating that (A) no Bonds remain outstanding and all draws under the LOC have been made and honored, or (B) a substitute LOC has been issued; or (vi) the date on which a stated maturity drawing that causing the stated amount of the LOC to be reduced to $0 is honored by the Bank.

Optional Tenders

Bondholders may optionally tender their Bonds on any business day during the weekly rate mode with five (5) business days prior written notice to the trustee and the remarketing agent.

Mandatory Purchases

The Bonds are subject to mandatory purchase on: (i) each interest rate conversion date (ii) any interest reset date while the Bonds are in the medium-term rate period, (iii) the fifth (5th) business day prior to the effective date of an alternate letter of credit or (iv) the second (2nd) business day prior to the expiration date of the letter of credit.

What Could Change the Rating-Up

Long-Term: the long-term rating on the Bonds could be upgraded if the Bank's long-term deposits rating or the long-term rating of the Borrower was upgraded, or if there was a decrease in the level of default dependence between the Bank and the Borrower.

Short-Term: N/A

What Could Change the Rating-Down

Long-Term: the long-term rating on the Bonds could be lowered if the Bank's long term deposits rating or the long-term rating of the Borrower was downgraded, or if there is an increase in the level of default dependence between the Bank and the Borrower.

Short-Term: the short-term rating on the Bonds could be lowered if the Bank's short-term deposits rating was downgraded.

Methodology

The principal methodologies used in rating this issue were Moody's Rating Methodology for Letter of Credit Supported Transactions published in August 2005 and Applying Global Joint Default Analysis to Letter of Credit Backed Transactions in the U.S. Public Finance Sector published in September 2010. Other methodologies and factors that may have been considered in the process of rating this issue can also be found on Moody's website.

Contacts

Remarketing Agent: Bank of America Merrill Lynch

Trustee: The Bank of New York Mellon Trust Company

MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS LETTER OF CREDIT BACKED RATINGS TO THE MOUNTAIN STATES HEALTH ALLIANCE, SERIES 2011A, 2011B, 2011C, 2011D, AND 2011E

Global Credit Research - 14 Oct 2011

$211.8 MILLION OF DEBT AFFECTED. RATING IS BASED ON THE JOINT SUPPORT FROM U.S. BANK N.A., PNC BANK, N.A. AND MIZUHO CORPORATE BANK, LTD AS LETTER OF CREDIT PROVIDERS

Johnson City Health & Educ. Fac. Bd., TN
Fully Supported
TN

Moody's Rating

ISSUE		RATING
Ser. 2011B		A2/VMIG 1
Sale Amount	$20,000,000	
Expected Sale Date	10/19/11	
Rating Description	DP LOC	
Ser. 2011A		Aa2/VMIG 1
Sale Amount	$65,260,000	
Expected Sale Date	10/19/11	
Rating Description	DP LOC	

Opinion

NEW YORK, Oct 14, 2011 -- Moody's Investors Service ("Moody's") has assigned ratings of: Aa2/VMIG 1 to the Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds (Mountain States Health Alliance), Series 2011A, and A1/VMIG1 to Series 2011B of that same issue; Aa2/VMIG 1 to the Industrial Development Authority of Smyth County, Virginia Hospital Revenue Bonds (Mountain States Health Alliances), Series 2011C, and Aa3/VMIG 1 to Series 2011D of that same issue; and Aa3/VMIG 1 to the Mountain States Health Alliance Taxable Bonds, Series 2011E (collectively, the "Bonds"). The long-term ratings of Series 2011D and 2011E are on review for downgrade in connection with Moody's ongoing review of Mizuho Corporate Bank, Ltd.

The proceeds of the sale of the Bonds will be used to: (a) finance certain capital expenses at Mountain State Health Alliance facilities; (b) refinance $11.2 million of the Hospital Refunding and Improvement Revenue Bonds (Norton Community Hospital, Inc.), Series 2001 issued by the Industrial Development Authority of the City of Norton, Virginia; and (c) pay certain expenses incurred in connection with the issuance of the Bonds.

SUMMARY RATINGS RATIONALE

The ratings are based upon: (i) direct-pay letters of credit provided by U.S. Bank National Association for Series 2011A and Series 2011C, PNC Bank, National Association for Series 2011B, and Mizuho Corporate Bank, Ltd. for Series 2011D and Series 2011E; (ii) the structure and legal protections of the transaction which ensure timely payment of debt service and purchase price to bondholders; and (iii) Moody's evaluation of the credit quality of the Banks issuing the letters of credit.

Moody's currently rates U.S. Bank N.A. Aa2 for its long-term other senior obligations ("OSO") and Prime-1 for its short-term OSO. PNC Bank, N.A. is currently rated A2 for its long-term OSO and Prime-1 for its short-term OSO. Mizuho Corporate Bank, Ltd's long-term and short-term issuer ratings are currently A1 (on review for downgrade) and Prime-1, respectively.

DETAILED CREDIT DISCUSSION

Interest Rate Modes

The Bonds will be issued in the weekly rate mode and pay interest on the first business day of each month, commencing November 1, 2011. Each letter of credit provides sufficient coverage for the applicable Series of bonds in the weekly rate mode only. The bond documents permit conversion of the interest rate on the Bonds, in whole, to the medium-term rate or fixed rate modes. The Bonds will be subject to mandatory tender upon each conversion. Moody's rating on the Bonds applies only to Bonds bearing interest in the weekly rate modes.

Flow of Funds

The trustee is instructed to draw under the applicable letter of credit by 4:00 p.m. on the business day prior to the payment date in order to receive funds sufficient to pay the principal, and interest accrued thereon, when the same becomes due. The trustee shall also draw for purchase price under the letter of credit by 11:30 a.m., in accordance with its terms thereof, so as to receive sufficient funds by 2:30 p.m. on the same day to pay the purchase price of Bonds tendered on the purchase date to the extent remarketing proceeds received are insufficient. Bonds which are purchased by the applicable bank due to a failed remarketing are held by the trustee and will not be released until the trustee has received written confirmation from that bank stating that the applicable letter of credit has been reinstated in the amount of the purchase price drawn for such Bonds. (All times refer to Eastern Standard Time).

Letters of Credit

Each letter of credit is sized for the full principal amount plus thirty-seven days of interest at a rate of 12%, the maximum rate on the Bonds. Each letter of credit provides sufficient coverage for the applicable Series of bonds while they bear interest in the weekly rate mode only. Each letter of credit is governed by and construed in accordance with the International Standby Practices 1998, International Chamber of Commerce Publication No. 590 (ISP98).

Draws on the Letters of Credit

Conforming draws for principal or interest received by U.S. Bank N.A., for Series 2011A and 2011C, at or before 3:00 p.m. on a business day will be honored by 1:30 p.m. on the next business day. Conforming draws for purchase price received by U.S. Bank N.A at or before 11:30 a.m. on a business day will be honored by 1:30 p.m. on the same business day. (All times refer to Central Standard Time).

Conforming draws for principal or interest received by PNC Bank, N.A. or Mizuho Corporate Bank, Ltd., supporting Series 2011B, and 2011D and 2011E, respectively, at or before 4:00 p.m. on a business day will be honored by 2:30 p.m. on the next business day. Conforming draws for purchase price received by those banks at or before 12:30 p.m. on a business day will be honored by 2:30 p.m. on the same business day. (All times refer to Eastern Standard Time).

Reinstatement Of Interest Draws

Draws made under each letter of credit for interest shall be automatically reinstated at the close of business on the date of such payment unless the trustee receives written notice from the applicable bank by 3:00 p.m. (Central Standard Time) in the case of Series 2011A or 2011C bonds, or 4:00 p.m. (Eastern Standard Time) in the case of Series 2011B, 2011D, or 2011E on the date of such payment specifying the occurrence of an event of default under the reimbursement agreement and directing the trustee to accelerate the applicable Series of Bonds. With direction to accelerate the applicable Series of bonds, the trustee shall declare bonds of that Series then outstanding to be immediately due and payable, whereupon they shall become and be immediately due and payable. The trustee is instructed to immediately draw on the letter of credit. Interest will cease to accrue one calendar day following the trustee's declaration of acceleration.

Reimbursement Agreement Defaults

In the event of a default under the reimbursement agreement, the applicable bank may, at its option, deliver written notice to the trustee stating that such event of default under the reimbursement agreement has occurred and direct the trustee to accelerate the applicable Series of bonds. With direction to accelerate the applicable Series of Bonds, the trustee shall declare bonds of that Series then outstanding to be immediately due and payable, whereupon they shall become and be immediately due and payable. The trustee is instructed to immediately draw on the letter of credit. Interest will cease to accrue one calendar day following the trustee's declaration of acceleration. The applicable letter of credit will terminate on the fifteenth calendar day following the trustee's receipt of notice from the applicable bank specifying the occurrence of an event of default under the reimbursement agreement and directing the trustee to accelerate the applicable Series of bonds.

Expiration/Termination of the Letters of Credit

Each letter of credit will terminate upon the earliest to occur of: (i) close of business on October 19, 2014, the stated expiration date of the applicable letter of credit; (ii) the business day following the conversion of all of the applicable Series of bonds to a rate mode other than the weekly rate; (iii) the date the bank receives notice from the trustee specifying that (a) no applicable bonds of a Series remain outstanding and all required draws available under the applicable letter of credit have been made and honored, or (b) an effective substitute letter of credit has been issued to replace the applicable letter of credit; (iv) the date on which an acceleration drawing is honored by the applicable bank; (v) fifteen calendar days following the trustee's receipt of notice from the applicable bank specifying the occurrence of an event of default under the reimbursement agreement and directing the trustee to accelerate the applicable Series of bonds; or, (vi) the date on which a stated maturity drawing is honored by the applicable bank.

Substitution

The Bonds will be subject to mandatory tender on fifth business day prior to the effective date of a substitute letter of credit. Draws for purchase price upon the substitution of the letter of credit will be made under the existing letter of credit and the existing letter of credit will not be surrendered to the bank for cancellation until such tender draw has been honored.

Optional Tenders

Bondholders may optionally tender their Bonds, while the Bonds are in the weekly rate mode, on any business day by providing written notice to the trustee and remarketing agent by 3:00 p.m. at least five business days prior to the purchase date. (All times refer to Eastern Standard Time).

Mandatory Tenders

The Bonds are subject to mandatory tender on: (i) on any interest rate mode conversion date, or any proposed interest rate mode conversion date; (ii) on the fifth business day preceding the effective date of a substitute letter of credit; (iii) on the adjustment date while the Bonds bear interest at the medium-term rate; (iv) on the first calendar day of a weekly rate period following a medium-term rate period; and (v) on the second business day prior to the expiration date of the letter of credit.

What Could Change the Rating - Up

Long-Term: The long-term rating on the applicable Series of bonds could be raised if the long-term rating of the applicable bank was upgraded.

Short-Term: Not applicable.

What Could Change the Rating - Down

Long-Term: The long-term rating on the applicable Series of bonds could be lowered if the long-term rating of the applicable bank was downgraded.

Short-Term: The short-term rating on the applicable Series of bonds would be lowered if the short-term rating of the applicable bank was downgraded.

Key Contacts:

Trustee: The Bank of New York Mellon Trust Company, N.A.

Underwriter: BofA Merrill Lynch (for Series 2011A, 2011B, 2011D, and 2011E) and U.S. Bank N.A. (for Series 2011C)

Remarketing Agent: Merrill Lynch, Pierce, Fenner & Smith (for Series 2011A, 2011B, 2011D, and 2011E) and U.S. Bank N.A. (for Series 2011C)

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Moody's Methodology for Rating U.S. Public Finance Transactions Based on the Credit Substitution Approach (August 2009). Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are considered EU Qualified by Extension and therefore available for regulatory use in the EU. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following: parties involved in the ratings and public information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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Rating Update: MOODY'S ASSIGNS LETTER OF CREDIT BACKED RATINGS TO THE MOUNTAIN STATES HEALTH ALLIANCE, SERIES 2011A, 2011B, 2011C, 2011D, AND 2011E

Global Credit Research - 17 Oct 2011

$211.8 MILLION OF DEBT AFFECTED. RATING IS BASED ON THE JOINT SUPPORT FROM U.S. BANK N.A., PNC BANK, N.A. AND MIZUHO CORPORATE BANK, LTD AS LETTER OF CREDIT PROVIDERS

Smyth County Ind. Dev. Auth., VA
Fully Supported
VA

Opinion

NEW YORK, Oct 17, 2011 -- Moody's Investors Service ("Moody's") has assigned ratings of: Aa2/VMIG 1 to the Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds (Mountain States Health Alliance), Series 2011A, and A1/VMIG1 to Series 2011B of that same issue; Aa2/VMIG 1 to the Industrial Development Authority of Smyth County, Virginia Hospital Revenue Bonds (Mountain States Health Alliances), Series 2011C, and Aa3/VMIG 1 to Series 2011D of that same issue; and Aa3/VMIG 1 to the Mountain States Health Alliance Taxable Bonds, Series 2011E (collectively, the "Bonds"). The long-term ratings of Series 2011D and 2011E are on review for downgrade in connection with Moody's ongoing review of Mizuho Corporate Bank, Ltd.

The proceeds of the sale of the Bonds will be used to: (a) finance certain capital expenses at Mountain State Health Alliance facilities; (b) refinance $11.2 million of the Hospital Refunding and Improvement Revenue Bonds (Norton Community Hospital, Inc.), Series 2001 issued by the Industrial Development Authority of the City of Norton, Virginia; and (c) pay certain expenses incurred in connection with the issuance of the Bonds.

SUMMARY RATINGS RATIONALE

The ratings are based upon: (i) direct-pay letters of credit provided by U.S. Bank National Association for Series 2011A and Series 2011C, PNC Bank, National Association for Series 2011B, and Mizuho Corporate Bank, Ltd. for Series 2011D and Series 2011E; (ii) the structure and legal protections of the transaction which ensure timely payment of debt service and purchase price to bondholders; and (iii) Moody's evaluation of the credit quality of the Banks issuing the letters of credit.

Moody's currently rates U.S. Bank N.A. Aa2 for its long-term other senior obligations ("OSO") and Prime-1 for its short-term OSO. PNC Bank, N.A. is currently rated A2 for its long-term OSO and Prime-1 for its short-term OSO. Mizuho Corporate Bank, Ltd's long-term and short-term issuer ratings are currently A1 (on review for downgrade) and Prime-1, respectively.

DETAILED CREDIT DISCUSSION

Interest Rate Modes

The Bonds will be issued in the weekly rate mode and pay interest on the first business day of each month, commencing November 1, 2011. Each letter of credit provides sufficient coverage for the applicable Series of bonds in the weekly rate mode only. The bond documents permit conversion of the interest rate on the Bonds, in whole, to the medium-term rate or fixed rate modes. The Bonds will be subject to mandatory tender upon each conversion. Moody's rating on the Bonds applies only to Bonds bearing interest in the weekly rate modes.

Flow of Funds

The trustee is instructed to draw under the applicable letter of credit by 4:00 p.m. on the business day prior to the payment date in order to receive funds sufficient to pay the principal, and interest accrued thereon, when the same becomes due. The trustee shall also draw for purchase price under the letter of credit by 11:30 a.m., in accordance with its terms thereof, so as to receive sufficient funds by 2:30 p.m. on the same day to pay the purchase price of Bonds tendered on the purchase date to the extent remarketing proceeds received are insufficient. Bonds which are purchased by the applicable bank due to a failed remarketing are held by the trustee and will not be released until the trustee has received written confirmation from that bank stating that the applicable letter of credit has been reinstated in the amount of the purchase price drawn for such Bonds. (All times refer to Eastern Standard Time).

Letters of Credit

Each letter of credit is sized for the full principal amount plus thirty-seven days of interest at a rate of 12%, the maximum rate on the Bonds. Each letter of credit provides sufficient coverage for the applicable Series of bonds while they bear interest in the weekly rate mode only. Each letter of credit is governed by and construed in accordance with the International Standby Practices 1998, International Chamber of Commerce Publication No. 590 (ISP98).

Draws on the Letters of Credit

Conforming draws for principal or interest received by U.S. Bank N.A., for Series 2011A and 2011C, at or before 3:00 p.m. on a business day will be honored by 1:30 p.m. on the next business day. Conforming draws for purchase price received by U.S. Bank N.A at or before 11:30 a.m. on a business day will be honored by 1:30 p.m. on the same business day. (All times refer to Central Standard Time).

Conforming draws for principal or interest received by PNC Bank, N.A. or Mizuho Corporate Bank, Ltd., supporting Series 2011B, and 2011D and 2011E, respectively, at or before 4:00 p.m. on a business day will be honored by 2:30 p.m. on the next business day. Conforming draws for purchase price received by those banks at or before 12:30 p.m. on a business day will be honored by 2:30 p.m. on the same business day. (All times refer to Eastern Standard Time).

Reinstatement Of Interest Draws

Draws made under each letter of credit for interest shall be automatically reinstated at the close of business on the date of such payment unless the trustee receives written notice from the applicable bank by 3:00 p.m. (Central Standard Time) in the case of Series 2011A or 2011C bonds, or 4:00 p.m. (Eastern Standard Time) in the case of Series 2011B, 2011D, or 2011E on the date of such payment specifying the occurrence of an event of default under the reimbursement agreement and directing the trustee to accelerate the applicable Series of Bonds. With direction to accelerate the applicable Series of bonds, the trustee shall declare bonds of that Series then outstanding to be immediately due and payable, whereupon they shall become and be immediately due and payable. The trustee is instructed to immediately draw on the letter of credit. Interest will cease to accrue one calendar day following the trustee's declaration of acceleration.

Reimbursement Agreement Defaults

In the event of a default under the reimbursement agreement, the applicable bank may, at its option, deliver written notice to the trustee stating that such event of default under the reimbursement agreement has occurred and direct the trustee to accelerate the applicable Series of bonds. With direction to accelerate the applicable Series of Bonds, the trustee shall declare bonds of that Series then outstanding to be immediately due and payable, whereupon they shall become and be immediately due and payable. The trustee is instructed to immediately draw on the letter of credit. Interest will cease to accrue one calendar day following the trustee's declaration of acceleration. The applicable letter of credit will terminate on the fifteenth calendar day following the trustee's receipt of notice from the applicable bank specifying the occurrence of an event of default under the reimbursement agreement and directing the trustee to accelerate the applicable Series of bonds.

Expiration/Termination of the Letters of Credit

Each letter of credit will terminate upon the earliest to occur of: (i) close of business on October 19, 2014, the stated expiration date of the applicable letter of credit; (ii) the business day following the conversion of all of the applicable Series of bonds to a rate mode other than the weekly rate; (iii) the date the bank receives notice from the trustee specifying that (a) no applicable bonds of a Series remain outstanding and all required draws available under the applicable letter of credit have been made and honored, or (b) an effective substitute letter of credit has been issued to replace the applicable letter of credit; (iv) the date on which an acceleration drawing is honored by the applicable bank; (v) fifteen calendar days following the trustee's receipt of notice from the applicable bank specifying the occurrence of an event of default under the reimbursement agreement and directing the trustee to accelerate the applicable Series of bonds; or, (vi) the date on which a stated maturity drawing is honored by the applicable bank.

Substitution

The Bonds will be subject to mandatory tender on fifth business day prior to the effective date of a substitute letter of credit. Draws for purchase price upon the substitution of the letter of credit will be made under the existing letter of credit and the existing letter of credit will not be surrendered to the bank for cancellation until such tender draw has been honored.

Optional Tenders

Bondholders may optionally tender their Bonds, while the Bonds are in the weekly rate mode, on any business day by providing written notice to the trustee and remarketing agent by 3:00 p.m. at least five business days prior to the purchase date. (All times refer to Eastern Standard Time).

Mandatory Tenders

The Bonds are subject to mandatory tender on: (i) on any interest rate mode conversion date, or any proposed interest rate mode conversion date; (ii) on the fifth business day preceding the effective date of a substitute letter of credit; (iii) on the adjustment date while the Bonds bear interest at the medium-term rate; (iv) on the first calendar day of a weekly rate period following a medium-term rate period; and (v) on the second business day prior to the expiration date of the letter of credit.

What Could Change the Rating - Up

Long-Term: The long-term rating on the applicable Series of bonds could be raised if the long-term rating of the applicable bank was upgraded.

Short-Term: Not applicable.

What Could Change the Rating - Down

Long-Term: The long-term rating on the applicable Series of bonds could be lowered if the long-term rating of the applicable bank was downgraded.

Short-Term: The short-term rating on the applicable Series of bonds would be lowered if the short-term rating of the applicable bank was downgraded.

Key Contacts:

Trustee: The Bank of New York Mellon Trust Company, N.A.

Underwriter: BofA Merrill Lynch (for Series 2011A, 2011B, 2011D, and 2011E) and U.S. Bank N.A. (for Series 2011C)

Remarketing Agent: Merrill Lynch, Pierce, Fenner & Smith (for Series 2011A, 2011B, 2011D, and 2011E) and U.S. Bank N.A. (for Series 2011C)

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Moody's Methodology for Rating U.S. Public Finance Transactions Based on the Credit Substitution Approach (August 2009). Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are considered EU Qualified by Extension and therefore available for regulatory use in the EU. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following: parties involved in the ratings and public information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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Rating Update: MOODY'S AFFIRMS MOUNTAIN STATES HEALTH ALLIANCE'S (TN) Baa1 BOND RATING; OUTLOOK REMAINS STABLE

Global Credit Research - 26 Apr 2012

APPROXIMATELY $1.03 BILLION OF RATED DEBT OUTSTANDING

MOUNTAIN STATES HEALTH ALLIANCE, TN
Hospitals & Health Service Providers
TN

Opinion

NEW YORK, April 26, 2012 --Opinion

Moody's Investors Service has affirmed the Baa1 unenhanced ratings assigned to Mountain States Health Alliance's (MSHA) $821 million of outstanding bonds issued by The Health and Educational Facilities Board of the City of Johnson City, TN, the Industrial Development Authority of Smyth County (Virginia), the Industrial Development Authority of Russell County (Virginia), and directly by MSHA. The Series 2011 bonds ($211.8 million) are supported by direct pay letters of credit and do not carry unenhanced ratings. The outlook remains stable.

SUMMARY RATING RATIONALE

Leading market share for this multi-hospital system offering a wide-array of high-end services is a key credit strength. MSHA continues a long history of double digit operating cash flow margins with a good cash balance that remains over 200 days despite decline in market values at the end of calendar year 2011. Major capital spending is nearly complete, enabling future growth in liquidity, minor additional debt plans. These strengths are tempered by one of the highest debt loads in our portfolio, generating weak debt measures. One other multi-facility health system provides competitive pressures.

STRENGTHS

*Multi-hospital system with strong and growing leading market share in a large geographic region where the flagship facility serves as a regional referral center offering a wide array of high-end services for hospitals in Tennessee and Virginia

*Multi-year growth in volumes with acquisitions

*Strong and stable operating cash flow margins in the 11.4% to16.7% range in each of the past seventeen audit years, with volume increases contributing to cash flow growth; projected operating cash flow margins remain in the double digits

*Good liquidity position with 246 days cash on hand at fiscal yearend (FYE) 2011 (June 30) and 217 days as of December 31, 2011

*Major capital spending nearly complete with upcoming opening of Smyth County Community Hospital; minor additional new debt planned for later this year

*Tenured management team

CHALLENGES

*Very high debt burden evidenced by high 110% debt-to-operating revenue, low 55% cash-to-debt ratio, high 7.7 times debt-to-cash flow ratio, and moderate Moody's-adjusted maximum annual debt service coverage of 2.55 times in FY 2011 as compared with Moody's Baa1 medians of 41.2%, 83.4%, 4.8 times and 3.5 times, respectively

*Sizable and consistent competition from Wellmont Health System, which holds a close but lesser market share (37% vs. 30%) in the extended 29-county service area and a significantly smaller market share (52% versus 38%)

in MSHA's 13-county core service area

*High 22.2% TennCare/Medicaid and self-pay load

DETAILED CREDIT DISCUSSION

LEGAL SECURITY: The bonds are secured by a security interest in the Pledged Assets (receivables, inventory, equipment, general intangibles, contracts and contract rights, government approvals, fixtures and other personal property, goods, instruments, chattel paper, documents, credits, claims, demands and assets) and a first lien on the Mortgaged Property, which includes the major hospitals, subject to certain permitted liens.

INTEREST RATE DERIVATIVES: MSHA is a party to interest rate swaps and other derivative agreements to establish floating rate exposure and to reduce fixed rate debt service. MSHA holds four basis swaps and one total return swap with Merrill Lynch Capital Services Inc. (guaranteed by Merrill Lynch & Co) for a total notional amount of $594 million. The fair market value of the swaps at December 31, 2011 was a liability of $15.3 million.

MSHA holds eight additional agreements ($106 million notional amount) with Lehman Brothers Special Financing, Inc. (Lehman) for various notional amounts that are linked fixed payer and total return swaps. Fair market value of these swaps at December 31, 2011 was a liability of $10.5 million, against which MSHA has posted $13.2 million of collateral (collateral is not included in unrestricted cash). Lehman filed for bankruptcy and the swaps were terminated effective January 1, 2009. There is a dispute between MSHA and Lehman regarding the cost of such termination, which is currently under discussion. MSHA has stated that it believes that the amount of the posted collateral should be sufficient to pay the cost of the terminations.

In September 2011 MSHA negotiated a full termination of the swaptions at no direct cost.

Two additional swaps, for a notional amount of $20.2 million and a mark to market liability value of $618,000 as of December 31, 2011.

RECENT DEVELOPMENTS/RESULTS

Operating cash flow margins continue to be strong at double digit levels, reaching 15.7% in FY 2011 (ended June 30) on operating cash flow of $153.2 million, up 9.9% and $139.4 million in FY 2010. As a result, debt-to-cash flow improved to 7.74 times in FY 2011 from 8.88 times in FY 2010 and high 10.22 times just two years earlier in FY 2009. This improvement occurred despite the rapid expansion with facility acquisitions (including equity interests) in Virginia between 2006 and 2009, which contributed to revenue growth to $976.1 million in FY 2011 from $678.5 million in FY 2007.

System expansion into southwest Virginia from a concentration in northeastern Tennessee has included the following: November 2006 purchase of 80% interest in Smyth County Community Hospital in Marion; October 2007 purchase of 50.1% interest in Norton Community Hospital that includes Norton Community Hospital in Norton and Dickenson County Community Hospital in Clintwood; January 2008 acquisition of Russell County Medical Center in Lebanon; and April 2009 purchase of 50.1% interest in Johnston Memorial Hospital in Abingdon. Combined, the Virginia hospitals added 627 licensed beds and about 10,000 acute care discharges to the system. Management continues to work on full integration of these facilities into the system with no current plans for additional facility acquisitions.

In addition to expanding in Virginia, in Tennessee MSHA opened a new free standing children's hospital in March 2009, consolidated two smaller facilities in Washington County, and undertook other renovation projects. As a result, the system grew admissions 27% across a four year period to 61,035 admissions in FY 2011 from 48,055 admissions in FY 2007. Outpatient visits and emergency room visits grew a sizable 66.8% and 50.8%, respectively, and total surgeries 26.3% across the same four year period. For the first six months of FY 2012 admissions grew another 3.3%, and outpatient visits by 3.6%.

MSHA's main competitor remains Wellmont Health System (Wellmont). Wellmont, with its flagship hospitals located in Sullivan County in the cities of Bristol and Kingsport, has grown to an eight facility system across northeastern Tennessee and southwest Virginia. MSHA defines its 13 county core service area largely as those nine counties where its acute care facilities are located plus an additional four neighboring counties. Within this 13 county service area MSHA maintains a leading and slightly growing market share, to 51.9% in 2010 from 51.5% in 2007 (management provided data), to Wellmont's 37.9%. In its extended 29 total county service area, management shows a leading 36.8% market share in 2010 compared to Wellmont's 30.1%.

The total system debt load remains high, evidenced through a 110% debt-to-revenue ratio in FY 2011, one of the highest in our portfolio. The debt structure is a mixture of fixed and variable rate bonds, notes and capital leases. As of December 31, 2011, about 60% of total debt is in a fixed rate mode and 40% in a variable rate mode. Letters of credit on outstanding Series 2007B and Series 2008A & B bonds have been extended to October 19, 2014 ($252.3 million). The new Series 2011A-E bond letters of credit expire October 19, 2014 ($211.8 million). Cash-to-demand debt of 116% at December 31, 2011 is down from a stronger 157% at FYE 2011 due to both an increase in debt load and a decline in liquidity. Moody's-adjusted maximum annual debt service (MADS) coverage of 2.55 times in FY 2011 improves in the first half of FY 2012 to an annualized 2.95 times with a decline in MADS with debt restructuring in the fourth quarter of 2011. There is minor additional debt planned for later this year.

Unrestricted liquidity declined $53.1 million (9%) in the first six months of FY 2012 to $539.4 million at December 31, 2011 from $592.5 million at June 30, 2011. Major drivers to the decline included a decline in market value to offset investment returns, debt service payments, capital spending and an increase in accounts receivable. As a result cash on hand declined to 216 days from 246 days, but consistently remains above 200 days. Cash-to-debt, which had improved to 55% in FY 2011 from 48% in FY 2009, declined with the decline in liquidity to 50% as of December 31, 2011, but remains comparable to the 47.9%-64.4% range from 2007-2011.

Outlook

The stable outlook reflects our belief that MSHA will continue to generate strong and stable operating cash flow margins to support its high debt load. We believe liquidity will improve barring any major negative fair market value adjustments.

WHAT COULD MOVE THE RATING UP

Continued growth in operating cash flow to support the high debt load; material improvement in debt measures; regrowth of liquidity; increased diversification of cash flow

WHAT COULD MOVE THE RATING DOWN

Increase in debt load without commensurate increase in cash flow; notable loss in market share; trend of decline in operating cash flow; material decline or loss of supplemental payments for servicing the Medicaid and indigent populations

KEY INDICATORS

Assumptions & Adjustments:

-Based on financial statements for Mountain States Health Alliance

-First number reflects the audit year ended June 30, 2010

-Second number reflects audit year ended June 30, 2011

-Non-operating income excludes loss on early extinguishment of debt and change in fair value of derivatives

-Investment returns smoothed at 6% unless otherwise noted

*Inpatient admissions: 60,101; 61,035

*Total operating revenues: $944.3 million; $976.1 million

*Moody's-adjusted net revenue available for debt service: $175.5 million; $193.0 million

*Total debt outstanding: $1.08 billion; $1.07 billion

*Total comprehensive debt outstanding: $1.13 billion; $1.13 billion

*Maximum annual debt service (MADS): $75.6 million; $75.6 million

*MADS Coverage based on reported investment income: 2.14 times; 2.32 times

*Moody's-adjusted MADS Coverage: 2.32 times; 2.55 times

*Debt-to-cash flow: 8.88 times; 7.74 times

*Days cash on hand: 235 days; 246 days

*Cash-to-debt: 51%; 55%

*Cash-to-total comprehensive debt: 49%; 53%

*Operating margin: 0.5%; 0.9%

*Operating cash flow margin: 14.8%; 15.7%

RATED DEBT (as of December 31, 2011)

Issued by The Health and Educational Facilities Board of the City of Johnson City, Tennessee:

Series 2011A variable rate bonds ($65.3 million outstanding), rated Aa2/VMIG 1 supported by letter of credit from US Bank expiring October 19, 2014

-Series 2011B variable rate bonds ($20.0 million outstanding), rated A2/VMIG 1 supported by letter of credit from PNC Bank expiring October 19, 2014

-Series 2010A fixed rate bonds ($161.9 million outstanding), rated Baa1

-Series 2009A fixed rate term bonds ($5.6 million outstanding), rated Baa1

-Series 2008A Variable Rate Hospital Revenue Bonds ($13.2 million outstanding), rated Aa2/VMIG 1 supported by letter of credit from US Bank expiring October 19, 2014; Baa1 unenhanced rating

-Series 2007B-1 Variable Rate Hospital Revenue Bonds ($26.2 million outstanding), joint support rating of A1/VMIG 1 with letter of credit from US Bank expiring October 19, 2014, Baa1 unenhanced rating

-Series 2007B-2 Variable Rate Hospital Revenue Bonds ($102.8 million outstanding), joint support rating of A1/VMIG 1 with letter of credit from PNC Bank expiring October 19, 2014, Baa1 unenhanced rating

-Series 2007B-3 Variable Rate Hospital Revenue Bonds ($34.2 million outstanding, $6.4 million of these redeemed on March 1, 2012), joint support rating of Aa3/VMIG 1 with letter of credit from Mizuho Corporate Bank expiring October 19, 2014, Baa1 unenhanced rating

-Series 2006A Fixed Rate First Mortgage Revenue Bonds, serial and term bonds ($169.0 million outstanding), rated Baa1

-Series 2001A Fixed Rate Hospital First Mortgage Revenue Term Bonds ($22.3 million outstanding), rated Baa1

-Series 2000A Hospital First Mortgage Revenue Refunding Capital Appreciation Bonds ($31.4 million outstanding), certain bonds insured by MBIA, Baa1 unenhanced rating

-Series 2000C Fixed Rate Hospital First Mortgage Revenue Term Bonds (Taxable) ($33.2 million outstanding), insured by MBIA, Baa1 unenhanced rating

Issued by Industrial Development Authority of Smyth County, Virginia:

-Series 2011C variable rate bonds ($49.9 million outstanding), rated Aa2/VMIG 1 supported by letter of credit from US Bank expiring October 19, 2014

-Series 2011D variable rate bonds ($60.7 million outstanding), rated A1/VMIG 1 supported by letter of credit from Mizuho Corporate Bank expiring October 19, 2014

-Series 2010B fixed rate bonds ($32.5 million outstanding), rated Baa1

-Series 2009B fixed rate term bonds ($5.5 million outstanding), rated Baa1

Issued by Industrial Development Authority of Russell County, Virginia:

-Series 2008B Variable Rate Hospital Revenue Bonds ($52.9 million outstanding) rated Aa2/VMIG 1 supported by letter of credit with US Bank expiring October 19, 2014; Baa1 unenhanced rating

Issued by Industrial Development Authority of Washington County, Virginia:

-Series 2009C fixed rate term bonds ($116.0 million outstanding), rated Baa1

Direct Obligation of Mountain States Health Alliance:

-Series 2011E variable rate bonds (Taxable) ($16.0 million outstanding), rated A1/VMIG 1 supported by letter of credit from Mizuho Corporate Bank expiring October 19, 2014

-Series 2000D Fixed Rate First Mortgage Term Bonds (Taxable) ($14.3 million outstanding), insured by MBIA, Baa1 unenhanced rating

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Financial Advisor: Steve Pischke, President, The Public Advisory Corporation (540) 687-6755

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are endorsed by Moody's Investors Service Ltd., One Canada Square, Canary Wharf, London E 14 5FA, UK, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

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Please see the ratings disclosure page on www.moodys.com for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on www.moodys.com for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

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Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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New Issue: Moody's assigns Baa1 rating to Mountain States Health Alliance's (TN) $54.9 million of Series 2012A fixed rate revenue bonds; outlook remains stable

Global Credit Research - 15 Aug 2012

Mountain States Health Alliance to have a total of $1.07 billion of rated debt outstanding

JOHNSON CITY HEALTH & EDUCATIONAL FACILITIES BOARD, TN
Hospitals & Health Service Providers
TN

Moody's Rating

ISSUE	RATING
Fixed Rate Bonds, Series 2012A	Baa1
Sale Amount $54,920,000	
Expected Sale Date 08/28/12	
Rating Description Revenue: Government Enterprise	

Moody's Outlook STA

Opinion

NEW YORK, August 15, 2012 --Moody's Investors Service has assigned a Baa1 unenhanced rating to Mountain States Health Alliance's (MSHA) $54.9 million of Series 2012A fixed rate revenue bonds to be issued by The Health and Educational Facilities Board of the City of Johnson City, TN The outlook remains stable.

SUMMARY RATING RATIONALE

Leading market share for this multi-hospital system offering a wide-array of high-end services is a key credit strength. MSHA continues a long history of double digit operating cash flow margins with a good cash balance that remains over 200 days despite decline in market values at the end of calendar year 2011. Major capital spending is nearly complete, enabling future growth in liquidity. These strengths are tempered by a high debt load in comparison to the rest of our portfolio, generating weak debt measures. One other multi-facility health system provides competitive pressures.

STRENGTHS

*Multi-hospital system with strong and growing leading market share in a large geographic region where the flagship facility serves as a regional referral center offering a wide array of high-end services for hospitals in Tennessee and Virginia

*Multi-year growth in volumes with acquisitions

*Strong and stable operating cash flow margins in the 11.4% to16.7% range in each of the past thirteen audit years and unaudited fiscal year (FY) 2012, with volume increases contributing to cash flow growth; projected operating cash flow margins remain in the double digits

*Good liquidity position with 212 days cash on hand at fiscal yearend (FYE) 2012 (June 30)

*Tenured management team

CHALLENGES

*Very high debt burden evidenced by high 115% debt-to-operating revenue, low 46% cash-to-debt ratio, high 9.2 times debt-to-cash flow ratio, and moderate Moody's-adjusted maximum annual debt service coverage of 2.20 times in FY 2012 as compared with Moody's Baa1 medians of 41.2%, 83.4%, 4.8 times and 3.5 times, respectively

*Sizable and consistent competition from Wellmont Health System, which holds a close but lesser market share (38% vs. 30%) in the extended 29-county service area and a significantly smaller market share (53% versus 37%) in MSHA's 13-county core service area (market share on 2011 data and provided by management)

*High 22.6% TennCare/Medicaid and self-pay load

DETAILED CREDIT DISCUSSION

USE OF BOND PROCEEDS: The Series 2012A-C bond proceeds will be used to (1) help finance certain capital improvements and equipment acquisitions, mainly the new $66 million Johnson City Medical Center Surgery Tower project and $10 million of projects at Norton Community Hospital (approximately $65 million in total will be borrowed), (2) reimburse for prior capital spending (approximately $26.5 million), (3) refinance certain capital leases (approximately $5.0 million), and (4) pay the costs of issuance.

LEGAL SECURITY: The bonds are secured by a security interest in the Pledged Assets (receivables, inventory, equipment, general intangibles, contracts and contract rights, government approvals, fixtures and other personal property, goods, instruments, chattel paper, documents, credits, claims, demands and assets) and a first lien on the Mortgaged Property, which includes the flagship hospital, Johnson City Medical Center, subject to certain permitted liens.

INTEREST RATE DERIVATIVES: MSHA is a party to interest rate swaps and other derivative agreements to establish floating rate exposure and to reduce fixed rate debt service. MSHA holds five basis swaps and one total return swap with Merrill Lynch Capital Services Inc. (guaranteed by Merrill Lynch & Co) for a total notional amount of $591 million. The fair market value of the swaps at July 20, 2012 was a liability of $11.1 million against which MSHA has no posted collateral.

MSHA holds eight additional agreements ($106 million notional amount) with Lehman Brothers Special Financing, Inc. (Lehman) for various notional amounts that are linked fixed payer and total return swaps. Fair market value of these swaps at June 30, 2012 was a liability of $10.4 million, against which MSHA has posted $13.8 million of collateral (collateral is not included in unrestricted cash). Lehman filed for bankruptcy and the swaps were terminated effective January 1, 2009. There is a dispute between MSHA and Lehman regarding the cost of such termination, which is currently under discussion. MSHA has stated that it believes that the amount of the posted collateral should be sufficient to pay the cost of the terminations.

There are two additional swaps, for a notional amount of $19.2 million and a mark to market liability of $221,000 as of June 30, 2012.

MARKET POSITION/COMPETITIVE STRATEGY: DOMINANT MARKET POSITION IN JOHNSON CITY, WITH LEADING MARKET POSITION IN 13-COUNTY CORE AREA AND 29-COUNTY EXTENDED SERVICE AREA

MSHA, a multi-hospital system operating nine acute care hospitals and 12 facilities in northeastern Tennessee, southwest Virginia, southeast Kentucky and western North Carolina, gains much credit strength from its dominant 90% market share in Washington County, TN where it operates seven of its facilities, including its flagship 514-licensed bed Johnson City Medical Center (JCMC), and is the only provider of acute care services. JCMC includes the 60-licensed bed Quillen Rehabilitation Hospital, providing a complete array of rehabilitative services for brain injury, stroke, and spinal cord injury and the 84-licensed bed Woodridge Hospital offering inpatient psychiatric and substance abuse services.

MSHA also holds a leading 52.6% market position in its combined 13-county primary and secondary service areas (PSA/SSA), and a leading and growing 37.6% market share in its 29-county extended service area. Competition is limited to one multi-hospital system (Wellmont Health System) and several small independent rural providers. Wellmont Health System operates four of its eight hospitals in MSHA's core market, garnering a distant 37.0% market share in the core 13-county service area, but a closer 29.6% market share in the extended 29-county service area. Many of the rural hospitals in the primary and secondary service area are affiliated with MSHA through network affiliations.

JCMC is a regional referral center for northeastern Tennessee offering a full array of acute care services, including one of only five state-designated Level III Regional Perinatal Centers and is a Level I trauma center. MSHA also owns Indian Path Medical Center and Pavilion located in Kingsport (Sullivan County), which competes against the much larger Wellmont facilities, Sycamore Shoals Hospital located in Elizabethton (Carter County) with no direct competition, and the designated critical access hospital Johnson County Community Hospital in Johnson County.

System expansion into southwest Virginia from a concentration in northeastern Tennessee has included the following: November 2006 purchase of 80% interest in Smyth County Community Hospital in Marion; October 2007 purchase of 50.1% interest in Norton Community Hospital that includes Norton Community Hospital in Norton and Dickenson County Community Hospital in Clintwood; January 2008 acquisition of Russell County Medical Center in Lebanon; and April 2009 purchase of 50.1% interest in Johnston Memorial Hospital in Abingdon. Combined, the Virginia hospitals added 627 licensed beds and about 10,000 acute care discharges to the system. Management continues to work on full integration of these facilities into the system with no current plans for additional facility acquisitions.

In addition to expanding in Virginia, in Tennessee MSHA opened a new free standing children's hospital in March 2009, consolidated two smaller facilities in Washington County, and undertook other renovation projects. As a result, the system grew admissions 27% across a four year period to 61,035 admissions in FY 2011 from 48,055 admissions in FY 2007. Outpatient visits and emergency room visits grew a sizable 66.8% and 50.8%, respectively, and total surgeries 26.3% across the same four year period. Several volume metrics continued to grow in FY 2012, with admissions increasing only slightly to 61,154, yet emergency room volumes increasing 1.7% to 246,821 and outpatient visits increasing 3.0% to over 1.59 million. Growth has tempered for surgical cases and births, however. There are no additional facility expansion plans at this time.

OPERATING PERFORMANCE: OPERATING CASH FLOW MARGIN REMAINS CONSISTENTLY STRONG

Operating cash flow margin of 13.3% on unaudited FY 2012 results continues to be strong at double digit levels, though mitigated slightly from the recent peak level of 15.7% in FY 2011 (fiscal year ends June 30). Operating cash flow was tempered 14.5% ($22 million) by a sizable increase in charity care. As a result, debt-to-cash flow weakened to 9.15 times from 7.74 times in FY 2011, but remains better than levels in fiscal years 2008 and 2009. Correspondingly, Moody's-adjusted maximum annual debt service coverage weakened slightly to 2.20 times from 2.55 times the prior year, and is below the 2.32 times low across the past five audited years.

MSHA continues to work on revenue enhancement and cost reduction efforts. Revenue enhancement initiatives focus on computerized coding, retail initiatives, growth in ambulatory and outpatient volumes, and clinical documentation. For FY 2012 MSHA is budgeting for increases in both admissions and outpatient visits, strategic increases in pricing, meaningful use dollars, increased revenue related to Medicare Shared Savings Program and Medicare Advantage through its health network. Expense initiatives include LEAN, reductions in length of stay, improvements in physician practice losses, reductions in lease expense and control of supply costs. MSHA will reduce contract labor costs, right-size personnel and modify benefits, and focus on other non-clinical expenses. These revenue and expense initiatives are currently underway.

BALANCE SHEET POSITION: DEBT LOAD REMAINS HIGH; LIQUIDITY REMAINS ABOVE 200 DAYS

The total system debt load remains high, evidenced through a 115% debt-to-revenue ratio in FY 2012, one of the highest in our portfolio, along with 9.15 times debt-to-cash flow. The Series 2012 bonds increase debt load 4.1% from our last review based upon December 31, 2011 pro forma debt, and 6.3% over FYE 2011 debt load. No additional debt is planned at this time. The debt structure is a mixture of fixed and variable rate bonds, notes and capital leases. As of June 30, 2012, about 57% of total debt is in a fixed rate mode and 43% in a variable rate mode, and will remain comparable post financing. Pro forma cash-to-demand debt of 106% at June 30, 2012 is down from 116% at December 31, 2011 due to both an increase in debt load and a decline in liquidity. Moody's-adjusted pro forma maximum annual debt service (MADS) coverage of 2.20 times in FY 2012 is down from the prior year and the lowest across the past five audited years, but within range of historical performance.

The current upcoming Series 2012 bond issuances area expected to include Series 2012A fixed rate bonds $54.9 million new money project bonds, Series 2012B variable rate capital reimbursement and lease refinancing bonds, and Series 2012C variable rate new money project bonds. The variable rate bonds are expected to be supported by letters of credit and rated at a later date. In addition, MSHA will establish an $18.4 million variable rate taxable note with a bank to refinance existing capital leases for anticipated present value savings (this note will not be rated). Our analysis incorporates all pieces of new debt.

Unrestricted liquidity declined $68.5 million (11.6%) since FYE 2011 to $524.1 million at June 30, 2012 from $592.5 million at June 30, 2011. Major drivers to the decline included a decline in market value to offset investment returns, debt service payments, capital spending and an increase in accounts receivable. As a result cash on hand declined to 212 days from 246 days, but consistently remains above 200 days. Cash-to-debt, which had improved to 55% in FY 2011, declined with the increase in debt and decline in liquidity to a pro forma 46%, but remains comparable to the 47.9%-64.4% range from 2007-2011.

Outlook

The stable outlook reflects our belief that MSHA will continue to generate strong and stable operating cash flow margins to support its high debt load. We believe liquidity will improve barring any major negative fair market value adjustments.

WHAT COULD MOVE THE RATING UP

Continued growth in operating cash flow to support the high debt load; material improvement in debt measures; regrowth of liquidity; increased diversification of cash flow

WHAT COULD MOVE THE RATING DOWN

Increase in debt load without commensurate increase in cash flow; notable loss in market share; trend of decline in operating cash flow; material decline or loss of supplemental payments for servicing the Medicaid and indigent populations

KEY INDICATORS

Assumptions & Adjustments:

-Based on financial statements for Mountain States Health Alliance

-First number reflects the audit year ended June 30, 2011

-Second number reflects pro forma unaudited year ended June 30, 2012, including the impact from the Series 2012 bonds

-Bad debt is reflected as a revenue reduction in FY 2012

-Non-operating income excludes loss on early extinguishment of debt and change in fair value of derivatives

-Investment returns smoothed at 6% unless otherwise noted

*Inpatient admissions: 61,035; 61,154

*Observation stays: 20,894; 22,179

*Medicare % of gross revenues: 43.7%; 44.1%

*Medicaid % of gross revenues: 13.7%; 14.1%

*Total operating revenues ($): $976.1 million; $988.5 million

*Revenue growth rate (%) (3 yr CAGR): 8.9%; 5.6%

*Operating margin (%): 0.9%; 1.0%

*Operating cash flow margin (%): 15.7%; 13.3%

*Debt to cash flow (x): 7.74x; 9.15x

*Days cash on hand: 246 days; 212 days

*Maximum annual debt service (MADS) ($): $75.6 million; $77.2 million

*MADS coverage with reported investment income (x): 2.32x; 2.16x

*Moody's-adjusted MADS Coverage with normalized investment income (x): 2.55x; 2.20x

*Direct debt ($): $1.070 billion; $1.137 billion

*Cash to direct debt (%): 55%; 46%

*Comprehensive debt: $$1.126 billion; not available

*Cash to comprehensive debt (%): 53%; not available

*Monthly liquidity to demand debt (%): 149%; not available

RATED DEBT (as of June 30, 2012)

Issued by The Health and Educational Facilities Board of the City of Johnson City, Tennessee:

Series 2011A variable rate bonds ($65.3 million outstanding), rated Aa2/VMIG 1 supported by letter of credit from US Bank expiring October 19, 2014

-Series 2011B variable rate bonds ($20.0 million outstanding), rated A2/VMIG 1 supported by letter of credit from PNC Bank expiring October 19, 2014

-Series 2010A fixed rate bonds ($161.9 million outstanding), rated Baa1

-Series 2009A fixed rate term bonds ($5.6 million outstanding), rated Baa1

-Series 2008A Variable Rate Hospital Revenue Bonds ($13.2 million outstanding), rated Aa2/VMIG 1 supported by letter of credit from US Bank expiring October 19, 2014; Baa1 unenhanced rating

-Series 2007B-1 Variable Rate Hospital Revenue Bonds ($26.2 million outstanding), joint support rating of Aa2/VMIG 1 with letter of credit from US Bank expiring October 19, 2014, Baa1 unenhanced rating

-Series 2007B-2 Variable Rate Hospital Revenue Bonds ($102.8 million outstanding), joint support rating of A1/VMIG 1 with letter of credit from PNC Bank expiring October 19, 2014, Baa1 unenhanced rating

-Series 2007B-3 Variable Rate Hospital Revenue Bonds ($27.8 million outstanding), joint support rating of Aa3/VMIG 1 with letter of credit from Mizuho Corporate Bank expiring October 19, 2014, Baa1 unenhanced rating

-Series 2006A Fixed Rate First Mortgage Revenue Bonds, serial and term bonds ($169.0 million outstanding), rated Baa1

-Series 2001A Fixed Rate Hospital First Mortgage Revenue Term Bonds ($22.3 million outstanding), rated Baa1

-Series 2000A Hospital First Mortgage Revenue Refunding Capital Appreciation Bonds ($32.9 million outstanding), certain bonds insured by MBIA, Baa1 unenhanced rating

-Series 2000C Fixed Rate Hospital First Mortgage Revenue Term Bonds (Taxable) ($33.2 million outstanding), insured by MBIA, Baa1 unenhanced rating

Issued by Industrial Development Authority of Smyth County, Virginia:

-Series 2011C variable rate bonds ($49.9 million outstanding), rated Aa2/VMIG 1 supported by letter of credit from US Bank expiring October 19, 2014

-Series 2011D variable rate bonds ($60.7 million outstanding), rated A1/VMIG 1 supported by letter of credit from Mizuho Corporate Bank expiring October 19, 2014

-Series 2010B fixed rate bonds ($32.5 million outstanding), rated Baa1

-Series 2009B fixed rate term bonds ($5.5 million outstanding), rated Baa1

Issued by Industrial Development Authority of Russell County, Virginia:

-Series 2008B Variable Rate Hospital Revenue Bonds ($52.9 million outstanding) rated Aa2/VMIG 1 supported by letter of credit with US Bank expiring October 19, 2014; Baa1 unenhanced rating

Issued by Industrial Development Authority of Washington County, Virginia:

-Series 2009C fixed rate term bonds ($116.0 million outstanding), rated Baa1

Direct Obligation of Mountain States Health Alliance:

-Series 2011E variable rate bonds (Taxable) ($16.0 million outstanding), rated A1/VMIG 1 supported by letter of credit from Mizuho Corporate Bank expiring October 19, 2014

-Series 2000D Fixed Rate First Mortgage Term Bonds (Taxable) ($14.3 million outstanding), insured by MBIA, Baa1 unenhanced rating

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PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are endorsed by Moody's Investors Service Ltd., One Canada Square, Canary Wharf, London E 14 5FA, UK, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, and confidential and proprietary Moody's Investors Service's information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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MOODY'S
INVESTORS SERVICE

Rating Update: Moody's affirms Mountain States Health Alliance's (TN) Baa1; outlook stable

Global Credit Research - 10 Mar 2015

$590m of rated debt outstanding

JOHNSON CITY HEALTH & EDUCATIONAL FACILITIES BOARD, TN
Hospitals & Health Service Providers
TN

NEW YORK, March 10, 2015 --Moody's Investors Service affirms the Baa1 rating on Mountain States Health Alliance's (MSHA) outstanding debt. The rating outlook is stable.

SUMMARY RATING RATIONALE

The Baa1 rating reflects improved financial performance demonstrated by this large multi-hospital system in eastern Tennessee and southeastern Virginia. Performance is showing good momentum with stronger results through the first half of FY 2015 given a re-invigorated focus on operations, expense management and physician relations under the direction of a new CEO and engaged Board. The rating also incorporates the organization's leading market position in Johnson City and the expansive 29-county service area.

These attributes are mitigated by the organization's leverage position which is very high and unfavorable to Moody's medians. Management is endeavoring over the next several years to de-leverage the system with increased cash flow and a new debt reduction strategy. Above average exposure to Medicare and Medicaid is also a credit risk.

OUTLOOK

The rating outlook is stable and based on our expectation that favorable performance should continue over the near term and the system will continue its efforts to de-leverage.

WHAT COULD MAKE THE RATING GO UP

- Material de-leveraging of the organization with improvement in key debt metrics such as debt-to-revenue, debt-to-cash flow, cash-to-debt and maximum annual debt service coverage that are more in line with A-rated health care systems

- Continued maintenance of favorable financial performance through organic growth and expense management

WHAT COULD MAKE THE RATING GO DOWN

- Departure from historically favorable financial performance that results in weaker debt coverage metrics

- Increase in leverage without enterprise growth

- Decline in absolute and relative liquidity metrics

- Loss of market share

STRENGTHS

- Historically strong financial performance with operating cash flow and operating cash flow margins exceeding Baa1 medians; good momentum demonstrated through the first half of FY 2015 with a 12.9% operating cash flow margin (compared to Baa1 median of 7.9%)

- Days cash is favorable at 255 days, providing ample headroom to the 100 days cash covenant in place under bank lending agreements and well exceeding the Baa1 median of 150; absolute and relative liquidity metrics should show improvement due to a forecasted reduction in capital spending and an increase in debt repayment

- Leading market position in Johnson City and the region for this multi-hospital system providing a wide array of tertiary services allows the system to focus on performance improvement

- Sharp focus on cost management strategies, including increasing productivity and labor management, and solidifying physician relations

CHALLENGES

- Highly leveraged enterprise with debt metrics that are unfavorable to Baa1 medians; debt to revenue is very high at 110% (compared to Baa1 median of 41%); despite the strong cash flow, Moody's adjusted maximum annual debt service is below average at 2.2 times (compared to Baa1 median of 3.2 times)

- Competition is present from a sizable system based 25 miles away in Kingsport, with primary hospitals in Kingsport and Bristol.

- Material exposure to government payors (51% Medicare and 14% TennCare/Medicaid gross revenues) while operating in two states that have not elected to expand Medicaid coverage

- Complex debt structure, including multiple bank agreements and a large swap portfolio, although no collateral postings have been required recently

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale section.

DETAILED RATING RATIONALE

MARKET POSITION: DISTINCTLY LEADING MARKET SHARE IN JOHNSON CITY AND THE REGION

MSHA is a multi-hospital system operating 11 acute care hospitals, the region's only children's hospital, an inpatient psychiatric facility, and other services such as home health, urgent care and rehabilitation in a broad service area that encompasses northeastern Tennessee, southwest Virginia, southeast Kentucky and western North Carolina. Credit strength derives from its 90% market share in Washington County, TN, where it is the only provider of acute care services and operates its flagship, 514-licensed bed Johnson City Medical Center (JCMC). Except for Kingsport, the system reports either the leading market share or is the sole provider in its primary service area. MSHA's Indian Path Medical Center (Kingsport) competes with Holston Valley Medical Center, owned by Wellmont Health System (not rated by Moody's).

Wellmont represents MSHA's primary competition and operates six hospitals. Market share trends provided by management through publicly available data show a growing divergence between the two systems with MSHA increasing market share to 41% in its 29-county extended service area compared to Wellmont's 26% market share, a declining trend (for Wellmont) through Q3 2014. Many of the rural hospitals in the primary and secondary service area are affiliated with MSHA, and primarily refer higher acuity patients to its three "hub" hospitals in Abingdon, VA., Johnson City, TN, and Kingsport, TN.

OPERATING PERFORMANCE, BALANCE SHEET, AND CAPITAL PLANS: ABOVE AVERAGE OPERATING CASH FLOW MARGINS CONTINUE, ADEQUATELY SUPPORTING A HIGH DEBT LOAD

A historical credit strength, MSHA continues to report above average operating cash flow margins although with some declines in recent years. FY 2014 reported a 12.3% margin, on par with FY 2013 but down from higher levels in FY 2010 through FY 2012. Performance through the first half of FY 2015 ending December 31, 2014 shows good momentum without any one-time revenue enhancements, reporting a 12.9% operating cash flow margin. Management expects it will reach its FY 2015 budget of 14.1%. MSHA's above average operating cash flow adequately supports the high debt load.

Management has set a new goal to reach an annual 4% operating margin; this denotes a material change in financial strategy given years of breakeven operating income. Under the direction of a new CEO, MSHA is focusing on costs, operating efficiencies, and integrating many of the assets the system added through various growth strategies over the past decade. A reinvigorated medical staff has also produced growth in volume trends. Over the past year, MSHA enacted a 10% system-wide reduction in non-patient care FTEs through layoffs and attrition. Additionally, benefit plans were changed. These strategies combined translate into $25 million of annual labor savings. Further, the recent joint venture with HealthSouth (now 51.1% owner) of the Quillen Rehab Center should improve cash flow by $2 million annually.

MSHA's payor mix has remained fairly stable, but does present material exposure to government payors (51% Medicare and 14% Medicaid in gross revenues). Neither Tennessee nor Virginia elected to expand Medicaid although management reports that 88,000 individuals are now enrolled in Medicaid given the 'woodworking' effect of the exchanges. Tennessee made no cuts to Medicaid in FY 2015 and held rates steady; Virginia held rates steady in FY 2015 following a 7% increase in FY 2014.

Liquidity

Liquidity is below average as long-term debt out sizes absolute liquidity, resulting in cash to debt ratio of 59% (Baa1 median is 104%). Relative liquidity to the size of the enterprise is favorable at 255 days and has historically exceeded 200 days. Unrestricted cash increased and investments grew to $646 million at the end of FY 2014 from $588 million at the end of the prior year due to good cash flow, lower capital spending and the use of bond proceeds for capital.

DEBT AND OTHER LIABILITIES

MSHA is highly leveraged as indicated by relative debt metrics compared to medians. Debt to revenue is 110%, compared to the Baa1 median of 41%. Despite lofty cash flow margins, debt service coverage measures are below Baa1 medians given the amount of leverage that the organization services. Moody's-adjusted maximum annual debt service coverage of 2.2 times in FY 2014 was below the Baa1 median of 3.2 times. Likewise, debt to cash flow of 8.9 times is nearly double the Baa1 median of 4.5 times.

To de-leverage the enterprise, management and the board has approved a new plan to accelerate the repayment of debt in conjunction with annual principal payments. In summary, through a combination of scheduled principal amortization and voluntary prepayment, MSHA anticipates paying down $532 million of debt from FY 2016 though FY 2022. Given that MSHA has completed a number of large capital projects, management anticipates using more of its cash flow for debt repayment. After FY 2015 ($53 million in capital planned), capital spending will hover at $45 million per year. While not covenanted to do so, MSHA plans to repay $70.5 million of debt in FY 2016, followed by $16 mm in FY 2017, $107.8 million in 2019, $46.0 million in 2020, $55.6 million in 2021 and $58.8 million in 2022. This does not include the normal repayment of amortizing bond principal that totals an additional $177 million.

Debt Structure

MSHA maintains 58% fixed rate debt and 42% variable rate. The expiration dates on the various Letters of Credit and the tenors on the direct placements are staggered with the largest amounts expiring in 2018. Master Trust Indenture covenants are the following: 1.3 times historical and maximum annual debt service; consultant call-in required if fails to meet test; 75 days cash measured at FYE. MBIA has a 110 days cash on hand covenant as long as MBIA-insured debt is outstanding. Letters of credit and private placement bank debt covenants are similar but measured more frequently: 1.3 times maximum annual debt service measured on a quarterly rolling basis; 100 days cash on hand measured semi-annually. MSHA has very comfortable headroom to the days cash on hand covenant although more narrow headroom on the rate covenant.

Debt-Related Derivatives

MSHA is a party to several interest rate swaps and other derivative agreements to establish floating rate exposure and to reduce fixed rate debt service. MSHA holds five basis swaps ($132 million), 3 CMS Basis Swaps ($438 million) and one total return swap ($19 million) for a total notional amount of $589 million. The swaps are long-dated maturities and all are with the same counterparty (Bank of America) which indicates concentration risk. The fair market value of the swaps at November 24, 2014 was a liability of $12.2 million against which MSHA has no posted collateral.

Pensions and OPEB

MSHA has a defined contribution plan, limiting demands on liquidity.

MANAGEMENT AND GOVERNANCE

In December 2013 a new CEO joined MSHA with a strong background in hospital operations. His arrival follows the planned retirement of the former CEO. All c-suite positions are filled. The Board is highly engaged as evidenced by the approval to de-leverage the system through debt repayment.

KEY STATISTICS

Assumptions & Adjustments:

-Based on financial statements for Mountain States Health Alliance

-First number reflects audit year ended June 30, 2013

-Second number reflects audited year ended June 30, 2014

-Investment returns smoothed at 6% unless otherwise noted

-Comprehensive debt includes direct debt, operating leases, and pension obligation, if applicable

*Inpatient admissions: 58,103; 57,040

*Observation stays: 23,554; 24,218

*Medicare % of gross revenues: 50.6%; 51.3%

*Medicaid % of gross revenues: 14.6%; 14.4%

*Total operating revenues ($): $994 million; $1,000 million

*Revenue growth rate (%) (3 yr CAGR): 2.0%; 1.1%

*Operating margin (%): -0.5%; 0.7%

*Operating cash flow margin (%): 12.0%; 12.3%

*Debt to cash flow (x): 9.5 times; 8.9 times

*Days cash on hand: 233.8 days; 255.7 days

*Maximum annual debt service (MADS) ($): $77.2 million; $77.2 million

*MADS coverage with reported investment income (x): 1.8 times; 2.0 times

*Moody's-adjusted MADS Coverage with normalized investment income (x): 2.1 times; 2.2 times

*Direct debt ($): $1,123 million; $1,104 million

*Cash to debt (%): 52.4%; 58.5%

*Comprehensive debt ($): $1,176 million; $1,151 million

*Cash to comprehensive debt (%): 50.0%; 56.1%

*Monthly liquidity to demand debt (%): 120.8%; 133.9%

OBLIGOR PROFILE

Mountain States Health Alliance is a $1.0 billion (total revenues in FY 2014) system comprised of 13 hospitals with the flagship, Johnson City Medical Center (514 licensed beds), located in Johnson City, TN (eastern Tennessee).

LEGAL SECURITY

The bonds are secured by a security interest in the Pledged Assets (receivables, inventory, equipment, general intangibles, contracts and contract rights, government approvals, fixtures and other personal property, goods, instruments, chattel paper, documents, credits, claims, demands and assets) and a first lien on the Mortgaged Property, which includes the flagship hospital, Johnson City Medical Center, subject to certain permitted liens. Bank debt is parity to the Master Trust Indenture.

USE OF PROCEEDS

Not applicable

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Not-for-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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January 22, 2010

Johnson City Health and Educational Facilities Board, Tennessee
Industrial Development Authority of Smyth County, Virginia
Industrial Development Authority of Russell County, Virginia
Mountain States Health Alliance, Tennessee; Joint Criteria; System

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Johnson City Health and Educational Facilities Board, Tennessee
Industrial Development Authority of Smyth County, Virginia
Industrial Development Authority of Russell County, Virginia
Mountain States Health Alliance, Tennessee; Joint Criteria; System

Credit Profile		
US$107.495 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2010A due 07/01/2038		
Long Term Rating	BBB+/Stable	New
US$104.165 mil taxable hosp rev bnds (Mountain States Hlth Alliance) ser 2010B due 07/01/2038		
Long Term Rating	BBB+/Stable	New
US$60.525 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2010D due 07/01/2038		
Long Term Rating	BBB+/Stable	New
US$38.905 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2010C due 07/01/2038		
Long Term Rating	BBB+/Stable	New
Mountain States Health Alliance ICR		
Long Term Rating	BBB+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'BBB+' long-term rating to the Health and Educational Facilities Board of the City of Johnson City, Tenn.'s $107.495 million tax-exempt series 2010A and $104.165 million taxable series 2010B fixed-rate bonds. Standard & Poor's also assigned its 'BBB+' long-term rating to the Industrial Development Authority of Smyth County, Va..'s $38.905 million series 2010C tax-exempt fixed-rate bonds, and the Industrial Development Authority of Russell County, Va.'s $60.525 million series 2010D tax-exempt fixed-rate bonds. All series were issued for Mountain States Health Alliance, Tenn. (MSHA). Standard & Poor's also affirmed its 'BBB+' issuer credit rating (ICR) on MSHA and its 'BBB+' long-term rating underlying rating (SPUR) on all other rated bonds issued for MSHA by various issuers. The outlook is stable.

Series 2010A, C, and D bonds will fully refund $184.8 million of combined 2007A, 2007C, and 2008B series bonds. The series 2010B taxable fixed-rate bonds will refund the next 10 years of principal payments of the series 2007B bonds, an amount equal to $91.7 million. Other than the funding of a debt service reserve and costs of issuance, no new money is being borrowed.

More specifically the 'BBB+' rating reflects:

- MSHA's excellent business position, which is characterized by solid demographics, a high market share, and a broad range of services;
- Strong management and governance, which is reflected in a favorable performance record since the system's creation in 1998;
- Continued strong financial performance, highlighted by very strong fiscal-year EBIDA margins, a sixth consecutive year of operating profitability in fiscal 2009, and solid liquidity for the rating level based on days' cash on hand; and
- The leveling-off of MSHA sizable capital and debt financing needs as there are few remaining independent hospital acquisition targets in the service area. Future debt increases should be limited as the system can handle most of its remaining capital needs with cash flow.

MSHA's sizable debt and accompanying high leverage remain the system's most significant credit risk. The system has a pro forma debt-to-capital ratio of 78% and a debt burden of 6.8% of revenue. Even with typical EBIDA margins of 14%-18%, maximum annual debt service (MADS) coverage has historically been below median 'BBB+' levels. On a pro forma basis, MADS coverage is 2.0x based on fiscal year-end 2009 results.

Standard & Poor's Debt Derivative Profile (DDP) overall score on MSHA's swap portfolio is '2.5' on a scale of '1.0' to '4.0', whereby '1.0' represents the lowest risk. The overall DDP score of '2.5' reflects Standard & Poor's view that MSHA's swap exposure is a low to moderate credit risk at this time. MSHA has two total return swaps with a total notional amount of $50 million whose counterparty was Lehman Brothers Special Financing Inc., guaranteed by Lehman Brothers Inc. The timing for termination of those swaps is uncertain pending resolution of issues related to Lehman's bankruptcy. MSHA estimates the mark-to-market value of the Lehman swaps to be negative $11 million, against which MSHA has posted $12.6 million of collateral. Standard & Poor's does not count collateral funds as unrestricted liquidity, so the possibility of paying a termination cost is not likely to have a major credit impact.

Merrill Lynch is the counterparty for two other swaps, including a $438 million constant maturity swap with a mark-to-market value in MSHA's favor of $7.1 million, and a $132 million fixed-payer swap with a mark-to-market value of negative $16.3 million, against which MSHA has no posted collateral (all figures as of Jan. 15, 2010).

MSHA had $532 million of unrestricted liquidity on Sept. 30, 2009, net of $13.1 million of posted swap collateral. Should the swaps terminate, there will be a modest negative effect since the swaps generate positive cash flow, including $1.1 million for the first three months of fiscal 2010. However, MSHA will easily be able to absorb the lost income, given its $37 million of EBIDA for the first quarter (EBIDA was $123 million for the full year ended June 2009).

Outlook

The outlook is stable. Additional risk related to MSHA's high debt levels is offset by the business position, benefits of the system's acquisition activity over the past several years, MSHA's favorable record of integrating acquired facilities, and the natural improvement in debt ratios that will occur as the system's results begin to reflect the acquired facilities for a full year in fiscal 2010. Also adding to credit stability is MSHA's history of maintaining solid earnings. However, given that debt service coverage is low for the rating level, the system's high debt burden remains a credit concern. We do not expect a higher rating until MSHA's debt levels moderate. Although not expected, should balance sheet metrics become more constrained, a lower rating or negative outlook would be likely.

Organizational Profile

Since its formation in 1998, MSHA has nearly tripled its asset base and net patient revenues to roughly $1.9 billion and $840 million, respectively. Due in large part to its acquisition strategy, the system's pro forma debt has doubled since 2005 and is now very high at over $1 billion. The system's growth was accomplished through strategic hospital acquisitions in its core northeastern Tennessee and southwest Virginia service areas. With the 2009 acquisition of a 50.1% stake in Johnston Memorial Hospital (JMH) in Abingdon, Va., MSHA now owns and operates 11 acute-care facilities and one psychiatric hospital, led by the flagship Johnson City Medical Center, a 623-licensed-bed tertiary regional provider. The system's hospital facilities include 1,780 staffed acute-care beds. The system also includes a range of outpatient facilities and ancillary services, such as a home health agency, a hospice, and other facilities including the ownership and management of medical office buildings. The affiliation with JMH completed MSHA's hospital acquisition strategy, which has included the acquisition of five Virginia hospitals over the past three years.

MSHA also operates a number of physician practices employing about 172 physicians. MSHA has steadily reduced losses at the physician practices through a modest attrition in the number of physicians, improvements in compensation when contracts were renewed, and other efficiency measures. However, MSHA does not intend to discontinue the employment of physicians, nor does its competitor, Wellmont, which also has staff physicians as part of its recruiting, retention, and market share strategies.

Since the system's creation in 1998, management and governance have evolved effectively, with a strong central leadership focused on maximizing the system's potential as a whole, as evidenced by the consolidation efforts in its core market of Washington County. In addition, management has broadened the access to managed-care contracts for all of the facilities, while centralizing the negotiations at the system level. It has also centralized other functions like billing and collections, purchasing, and laboratory services. The board improved its effectiveness by reducing its size to a very manageable 13 members, and has upheld its values of strong planning, education, and transparency.

Market Position

The system's defined market area has broadened significantly over with its acquisition activity. The core service area now has 13 counties in Tennessee and Virginia, of which MSHA has approximately 52% market share, including JMH. Today only about 30% of the system's patients originate from its original home county of Washington County, Tenn. In the broader 29-county service area, MSHA has a 37% share, and Wellmont, 30%, with no significant third player.

Wellmont has acquired three hospitals in its secondary service area within the past two to three years and is in the midst of a sizable renovation of its largest campus, Holston Valley Medical Center. We believe that the spate of acquisitions by both health systems over the past several years has largely played out as there are very few remaining independent hospitals in the region. While the service area remains very competitive, its market characteristics remain favorable in terms of population growth and the market's size will continue to support two sizable competitors.

While MSHA's market share is extremely strong in the core Washington County market, Wellmont Health System dominates in adjacent Sullivan County. The nine-hospital Wellmont has two flagship hospitals in Sullivan County, with combined admissions of roughly 30,000, while MSHA has a relatively modest-size facility, Indian Path Medical Center (7,873 admissions in fiscal 2009). Historically, Sullivan County was the only part of MSHA's primary service area where the two systems competed head to head, whereas in other parts of their service areas, MSHA and Wellmont generally did not overlap. However, they are increasingly overlapping in their service areas. For example, MSHA traditionally had no hospitals in Virginia, while Wellmont did. However, recent affiliations with the five Virginia hospitals have thrust MSHA into a service area that traditionally has fed Wellmont's facilities. The two systems now compete head-on in Norton, Va., a two-hospital town where in 2007, MSHA acquired a 50.1% ownership Norton Community Hospital, while Wellmont acquired the other one (Mountain View).

Competition in Sullivan County is likely to heat up soon due to Wellmont's major renovation of its flagship campus, Holston Valley Medical Center, at an estimated cost of more than $100 million.

Projects Update

Niswonger Children's Hospital

MSHA completed and opened the $34 million Niswonger Children's Hospital on March 2, 2009. The project, which created the region's first free-standing children's hospital, expanded pediatric services at the Johnson City Medical Center by seven beds. About $25 million of the project's cost was funded through philanthropy.

Franklin Woods Community Hospital (FWCH)

FWCH is a new $118 million, 80-bed hospital replacement facility that will replace the inpatient acute-care services at MSHA's North Side Hospital and its Johnson City Specialty Hospital. FWCH is expected to open in May/June 2010. North Side Hospital will remain open and serve outpatients and provide skilled nursing care.

Johnston Memorial Hospital (JMH)

Series 2009E bonds funded MSHA's acquisition of a 50.1% interest in the 135-bed JMH in April 2009. MSHA is building a 250,000-square-foot replacement hospital next to the JMH cancer center in Abingdon, Va., which opened in 2007. The new hospital is scheduled to open in March 2011.

Finances

MSHA demonstrated modest operating performance improvement during fiscal 2009. For the year ended June 30, net operating income climbed to $7 million, or a 0.83% margin on $840 million in total operating revenues, compared with $6.2 million, or a 0.82% margin, on $756 million in revenues in fiscal 2008. Although inpatient admissions grew to 57,127 in fiscal 2009 from 54,307 in fiscal 2008, volume growth was largely generated from acquisitions, and not same-store volumes, which were flat. Fiscal 2010 will be the first full year of operating results with the acquired facilities, and MSHA is budgeting $16 million in operating revenues (1.6% margin) on $1.0 billion in total operating income. The system is forecasting 9.1% inpatient volume growth to 62,305 from 57,127 in 2009. MSHA estimates that it will be eligible for about $46 million in stimulus payments over the next five years. However, no stimulus funds are included in the system's 2010 budget or five-year forecast.

In 2009 MSHA implemented revenue and expense initiatives including eliminating 126 staffers, restricting hiring, limiting travel, and eliminating pay increases for management. Additionally, the system closed its Indian Path Pavilion (a behavioral health facility), which will create about $3 million in annual savings. Management has also identified about $7.5 million of revenue enhancement opportunities for its operations in southwest Virginia. No TennCare cuts are expected for 2010 and management expects no increase in Virginia Medicaid for 2010. But TennCare cuts are a possibility for 2011. Other expected major payor increases are 5%-7% for fiscal 2010.

EBIDA margin was 14.4% for fiscal 2009. Pro forma MADS coverage, based on MADS of $71 million, was 1.9x based on June 30, 2009, fiscal year-end results.

Net excess income for the year was $21.2 million due to $19.1 million of interest, dividend, and derivative related income that was offset by realized investment losses.

Interim Financial Performance: Sept. 30, 2009 (Three Months)

Through the first three months of fiscal 2010, MSHA reported an operating loss of $2.4 million on $235 million in operating revenues. First quarter losses are typical for MSHA since it is their practice is to be very conservative in realizing income early in the year. Last year the system reported a first quarter operating loss of $546,000 on $204 million of operating revenues.

Balance Sheet

MSHA's aggressive pace of acquisitions has positioned the system to compete effectively in its core service area; however, those investments have leveraged the system's balance sheet and limited the growth in unrestricted liquidity despite solid operating cash flow.

Unrestricted cash and investments totaled $515 million at fiscal year-end 2009, equal to 242 days' cash. The system's target asset allocations include maintaining 165 days' cash in high-quality and highly liquid fixed-income investments. Above 165 days' cash, the system may invest in equities up to an allocation limit of 50%. MSHA does not invest in hedge funds or in private equity. Long-term debt to capitalization is high at 79%. Due to high system leverage, year-end cash to debt was 48%, which is well below the median for the current rating. MSHA remains in compliance with all bond covenants. We expect that leverage and liquidity metrics will improve over the next several years now that the system's acquisition program is essentially complete.

Debt Derivative Profile

MSHA's DDP overall score is a '2.5' on a scale of '1' to '4', whereby '1' represents the lowest risk. The score of '2.5' reflects Standard & Poor's view that MSHA's swap exposure is a low to moderate credit risk at this time.

The key components of the overall DDP score of '2.5' are:

- There are strong management practices, including a written swap policy, frequent communication of swap performance to the board, good audit disclosure related to swaps, and the use of independent financial advisers to assist in evaluating swap strategies and performance.
- The termination and collateral-posting risk is offset from a credit standpoint by MSHA's collateral being clearly segregated from unrestricted liquidity, and none of the collateral is included in any of Standard & Poor's

unrestricted liquidity calculations.

Related Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

Ratings Detail (As Of January 22, 2010)		
Mountain States Health Alliance		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd, Tennessee		
Mountain States Hlth Alliance, Tennessee		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance)		
Long Term Rating	BBB+/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2007A		
Long Term Rating	AA/A-2	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2007B		
Long Term Rating	AA/A-2	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2008A		
Long Term Rating	AA/A-2	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Hlth Alliance) hosp rev bnds (Mountain States Hlth Alliance) ser 2010A due 07/01/2038		
Long Term Rating	NR	
Johnson City Hlth & Ed Fac Brd (Mountain States Hlth Alliance) taxable hosp rev bnds (Mountain States Hlth Alliance) ser 2010B due 07/01/2038		
Long Term Rating	NR	
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Russell Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Russell Cnty Indl Dev Auth (Mountain States Health Alliance) hosp VRDO ser 2008B		
Long Term Rating	AA/A-2	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Smyth Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Smyth Cnty Indl Dev Auth (Mountain States Health Alliance)		
Long Term Rating	BBB+/Stable	Affirmed
Smyth Cnty Indl Dev Auth (Mountain States Health Alliance) hosp VRDO ser 2007C		
Long Term Rating	AA/A-2	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed

Ratings Detail (As Of January 22, 2010) **(cont.)**		
Washington Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Washington Cnty Indl Dev Auth (Mountain States Health Alliance)		
Long Term Rating	BBB+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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September 29, 2010

Summary:

Mountain States Health Alliance, TN's Series 2008A Bonds Rating Raised To 'AAA/A-1+'; Joint Criteria

Primary Credit Analyst:
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Summary:

Mountain States Health Alliance, TN's Series 2008A Bonds Rating Raised To 'AAA/A-1+'; Joint Criteria

Credit Profile		
Johnson City Hlth & Ed Fac Brd, Tennessee		
Mountain States Hlth Alliance, Tennessee		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2008A		
Long Term Rating	AAA/A-1+	Upgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services raised its rating on Johnson City Health and Educational Facilities, Tenn.'s hospital revenue bonds series 2008A, issued on behalf of Mountain States Health Alliance (MSHA), to 'AAA/A-1+' from 'AA-/A-2' based on the substitution of the letter of credit (LOC) to one provided by U.S. Bank N.A. (AA-/A-1+) from the LOC provided by Regions Bank (BBB/A-2). The long term component of the rating is based jointly on the combined rating of MSHA (BBB+) and the LOC provided by U.S. Bank N.A. The short term component of the rating is based solely on the LOC provided by U.S. Bank N.A.

The LOC provides coverage for the payment of principal of and interest on the bonds, including the payment of unremarketed tendered bonds. The LOC provides for a maximum of 37 days of interest coverage at the maximum rate of 12% per annum. If interest is not re-instated following an interest drawing, then the trustee is directed to declare an acceleration with interest ceasing to accrue on the first business day following declaration of acceleration. The LOC is scheduled to expire on Sept. 29, 2013, unless earlier extended or terminated pursuant to their terms.

For more information on MSHA's 'BBB+' issuer credit rating, see "Mountain States Health Alliance, Tennessee," published Jan. 22, 2010, on RatingsDirect on the Global Credit Portal.

Related Criteria And Research

- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- Criteria: Joint Support Criteria Update, April 22, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

September 29, 2010

Summary:

Mountain States Health Alliance, TN's Series 2008B Bonds Rating Raised To 'AAA/A-1+'; Joint Criteria

Primary Credit Analyst:
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Summary:

Mountain States Health Alliance, TN's Series 2008B Bonds Rating Raised To 'AAA/A-1+'; Joint Criteria

Credit Profile		
Russell Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Russell Cnty Indl Dev Auth (Mountain States Health Alliance) hosp VRDO ser 2008B		
Long Term Rating	AAA/A-1+	Upgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services raised its rating on Russell County Industrial Development Authority, Va.'s hospital revenue bonds series 2008B, issued on behalf of Mountain States Health Alliance, Tenn. (MSHA), to 'AAA/A-1+' from 'AA-/A-2', based on the substitution of the letter of credit (LOC) to one provided by U.S. Bank N.A. (AA-/A-1+) from one provided by Regions Bank (BBB/A-2). The long-term component of the rating is based jointly (assuming low correlation) on the combined rating of MSHA (BBB+) and the LOC provided by US Bank N.A. The short-term component of the rating is based solely on the LOC provided by U.S. Bank NA.

The LOC provides coverage for the payment of principal of and interest on the bonds, including the payment of unremarketed tendered bonds. The LOC provides for a maximum of 37 days of interest coverage at the maximum rate of 12% per annum. If interest is not re-instated following an interest drawing, then the trustee is directed to declare an acceleration with interest ceasing to accrue on the first business day following declaration of acceleration. The LOC is scheduled to expire on Sept. 29, 2013, unless earlier extended or terminated pursuant to their terms.

For more information on MSHA's 'BBB+' issuer credit rating, see "Mountain States Health Alliance, Tennessee," published Jan. 22, 2010, on RatingsDirect on the Global Credit Portal.

Related Criteria And Research

- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- Criteria: Joint Support Criteria Update, April 22, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

September 30, 2010

Summary:

Mountain States Health Alliance, TN's Series 2007B Bonds Rating Raised To 'AAA/A-1+'; Joint Criteria

Primary Credit Analyst:
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Summary:

Mountain States Health Alliance, TN's Series 2007B Bonds Rating Raised To 'AAA/A-1+'; Joint Criteria

Credit Profile		
Johnson City Hlth & Ed Fac Brd, Tennessee		
Mountain States Hlth Alliance, Tennessee		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO Taxable ser 2007B-1		
Long Term Rating	AAA/A-1+	Upgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services raised its rating on Johnson City Health and Educational Facilities Board, Tenn.'s (Mountain States Health Alliance) hospital revenue bonds series 2007B (taxable) to 'AAA/A-1+' from 'AA-/A-2', following the splitting of the series 2007B bonds into sub-series 2007B-1 (taxable), sub-series 2007B-2 (taxable), and sub-series 2007B-3 (taxable); and the substitution of current letter of credit (LOC) with individual LOCs. The long-term component of the rating on all three sub-series will be based on joint criteria (assuming low correlation). The obligor is rated 'BBB+/Stable'. The series 2007B-1 (taxable) bonds will be enhanced with a LOC provided by U.S. Bank N.A. (AA-/A-1+). The series 2007B-2 (taxable) bonds will be enhanced with a LOC provided by PNC Bank National Association (A+/A-1). The series 2007B-3 (taxable) bonds will be enhanced with a LOC provided by Mizuho Corporate Bank (A+/A-1). The short-term component on the individual series will be based solely on the LOC providers.

The LOCs provide coverage for the payment of principal of and interest on the bonds, including the payment of unremarketed tendered bonds. The LOCs provide for a maximum of 37 days of interest coverage at the maximum rate of 12% per annum. If interest is not reinstated following an interest drawing, then the trustee is directed to declare an acceleration, with interest ceasing to accrue on the first business day following declaration of acceleration. The LOCs are scheduled to expire on Sept. 29, 2013, unless earlier extended or terminated pursuant to their terms.

For more information on MSHA's 'BBB+' ICR rating, see "Mountain States Health Alliance, Tennessee," published Jan. 22, 2010, on RatingsDirect on the Global Credit Portal.

Related Criteria And Research

- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- Criteria: Joint Support Criteria Update, April 22, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at

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www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Global Credit Portal
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January 19, 2011

Johnson City Health and Educational Facilities Board, Tennessee
Mountain States Health Alliance; Joint Criteria; System

Primary Credit Analyst:
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Johnson City Health and Educational Facilities Board, Tennessee
Mountain States Health Alliance; Joint Criteria; System

Credit Profile		
Mountain States Health Alliance ICR		
Long Term Rating	BBB+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'BBB+' issuer credit rating (ICR) on Mountain States Health Alliance (MSHA), Tenn. Standard & Poor's also affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on rated bonds issued for MSHA by various issuers. The outlook is stable.

The 'BBB+' ratings reflect our view of:

- MSHA's excellent business position, which is characterized by solid demographics, a high market share, and a broad range of services;
- Strong management and governance, which is reflected in a favorable performance record since the system's creation in 1998;
- Continued strong financial performance, highlighted by very strong fiscal-year EBIDA margins, a seventh consecutive year of operating profitability in fiscal 2010, and solid liquidity for the rating level based on days' cash on hand; and
- The leveling-off of MSHA's sizable capital and debt financing needs as there are few remaining independent hospital acquisition targets in the service area.

According to management, future debt increases will likely be limited as the system can handle most of its remaining capital needs with cash flow. MSHA's sizable debt and accompanying high leverage remain the system's most significant credit risk. The system has a debt-to-capital ratio of 77% and a debt burden of 6.7% of revenue. Even with typical EBIDA margins of 14%-18%, maximum annual debt service (MADS) coverage has historically been below median 'BBB+' levels, although MADS coverage improved to 2.5x based on fiscal year-end 2010 results.

Standard & Poor's Debt Derivative Profile (DDP) overall score on MSHA's swap portfolio is '2.5' on a scale of '1.0' to '4.0', whereby '1.0' represents the lowest risk. The overall DDP score of '2.5' reflects Standard & Poor's view that MSHA's swap exposure reflects low to moderate credit risk at this time. MSHA has two total return swaps with a total notional amount of $50 million, whose counterparty was Lehman Brothers Special Financing Inc., guaranteed by Lehman Brothers Inc. The timing for the termination of those swaps is uncertain pending the resolution of issues related to Lehman's bankruptcy. MSHA estimates the mark-to-market value of the Lehman swaps to be negative $11 million, against which MSHA has posted $12.6 million of collateral. Standard & Poor's does not count collateral funds as unrestricted liquidity, so the possibility of paying a termination cost is not likely to have a material credit impact.

Merrill Lynch is the counterparty for two other swaps, including a $438 million constant maturity swap with a mark-to-market value in MSHA's favor of $3.9 million and more than $2 million positive annual cash flow, and a $132 million fixed-payer swap with a mark-to-market value of negative $27 million, against which MSHA had $5.1 million of posted collateral (all figures as of Nov. 30, 2010).

MSHA had $550 million of unrestricted liquidity on Sept. 30, 2010, net of $17.7 million of posted swap collateral. Should the swaps terminate, MSHA will lose the more than $2 million positive annual cash flow from the swaps; however, MSHA will also be relieved of more than $4 million of negative carry on its fixed payor swaps if the full portfolio is terminated.

Outlook

The stable outlook reflects our view of MSHA's business position, the benefits of the system's acquisition activity over the past several years, MSHA's favorable record of integrating acquired facilities, and the natural improvement in debt ratios that has started to occur as the system's results have begun to reflect the acquired facilities for a full year. Also adding to credit stability is MSHA's history of maintaining solid earnings. However, given that debt service coverage is low for the rating level, the system's high debt burden remains a credit concern. We do not expect to raise the rating until MSHA's debt levels moderate. Although not expected, should balance sheet metrics weaken, a lower rating or negative outlook would be likely.

Organizational Profile

Since its formation in 1998, MSHA has roughly tripled its asset base and net patient revenues to more than $1.9 billion and $930 million, respectively. Due in large part to its acquisition strategy, the system's pro forma debt has doubled since 2005 and is now very high at over $1 billion. The system's growth was accomplished through strategic hospital acquisitions in its core northeastern Tennessee and southwest Virginia service areas.

MSHA owns and operates 11 acute-care facilities and one psychiatric hospital led by the flagship Johnson City Medical Center, a 623-licensed-bed tertiary regional provider. The system's hospital facilities include 1,780 licensed acute-care beds. The system also includes a range of outpatient facilities and ancillary services, such as a home health agency, a hospice, and other facilities including the ownership and management of medical office buildings. The affiliation with Johnston Memorial Hospital (JMH) in 2009 completed MSHA's hospital acquisition strategy, which has included the acquisition of five Virginia hospitals over the past four years.

As part of its physician integration efforts, MSHA has consolidated its employed physician practices into Mountain States Medical Group, which currently employs about 230 physicians. MSHA has steadily reduced physician practice losses through attrition of less productive physicians, improvements in compensation when contracts are renewed, and other efficiency measures.

Since the system's creation in 1998, management and governance have evolved effectively. A strong central leadership is focused on maximizing the system's potential as a whole, as evidenced by the consolidation efforts in its core market of Washington County. In addition, management has broadened the access to managed-care contracts for all of the facilities, while centralizing the negotiations at the system level. It has also centralized other functions like billing and collections, purchasing, and laboratory services. The board improved its effectiveness by reducing its size to a very manageable 13 members, and has upheld its values of strong planning, education, and transparency.

Market Position

The system's defined market area has broadened significantly due to its acquisition activity. The core service area encompasses 13 counties in Tennessee and Virginia, of which MSHA has approximately 52% market share. Today only about 30% of the system's patients originate from its original home county of Washington County, Tenn. In the broader 29-county service area, MSHA has a 37% share; MSHA's main competitor, Wellmont, holds about a 30% share. There is no significant third player.

Wellmont has acquired three hospitals in its secondary service area within the past few years and completed a sizable renovation of its largest campus, Holston Valley Medical Center, during the past year. We believe that the spate of acquisitions by both health systems over the past several years has largely played out as there are very few remaining independent hospitals in the region. While the service area remains very competitive, its market characteristics remain favorable in terms of population growth, and the market's size will continue to support two sizable competitors.

While MSHA's market share is extremely strong in the core Washington County market, Wellmont Health System dominates in adjacent Sullivan County. Historically, Sullivan County was the only part of MSHA's primary service area where the two systems competed head to head, whereas in other parts of their service areas, MSHA and Wellmont generally did not overlap. However, they are increasingly overlapping in their service areas. For example, MSHA traditionally had no hospitals in Virginia, while Wellmont did. However, recent affiliations with the five Virginia hospitals have thrust MSHA into a service area that traditionally has fed Wellmont's facilities. The two systems now compete head-on in Norton, Va., a two-hospital town where in 2007, MSHA acquired a 50.1% ownership Norton Community Hospital, while Wellmont acquired the other one (Mountain View).

Projects Update

Smyth County Community Hospital is a $60 million, 44-bed replacement hospital for the more than 40-year-old local community hospital. Funding for the project is coming from operating reserves, a new market tax credit loan, and vendor financing. The project is expected to be complete by November 2011.

Franklin Woods Community Hospital (FWCH) is a new $114 million, 80-bed (plus 20 shelled beds) hospital replacement facility that replaced inpatient acute-care services at MSHA's North Side Hospital and its Johnson City Specialty Hospital. FWCH opened in July 2010. North Side Hospital has remained open and provides skilled-nursing care.

Series 2009E bonds funded MSHA's acquisition of a 50.1% interest in the 135-bed JMH in April 2009. MSHA is building a 250,000-square-foot replacement hospital next to the JMH cancer center in Abingdon, Va., which opened in 2007. The new hospital is scheduled to open in May 2011.

Finances

MSHA demonstrated solid operating performance improvement during fiscal 2010. For the year ended June 30, 2010, net operating income climbed to $13.5 million, or a 1.4% margin, on $945 million in total operating revenues, compared with $7.0 million, or a 0.83% margin, on $840 million in revenues in fiscal 2009. Although inpatient admissions grew to 60,101 in fiscal 2010 from 57,127 in fiscal 2009, volume growth was largely generated from acquisitions, and not same-store volumes, which were flat. Fiscal 2010 was the first full year of operating results with the acquired facilities, and MSHA's operating performance was slightly weaker that the $16 million budgeted (1.6% margin). The system is forecasting flat inpatient volume growth of 0.42% (to 60,355) in fiscal 2011. MSHA estimates that it will be eligible for about $57 million in stimulus payments between 2010 and 2015; however, no stimulus funds are included in the system's five-year forecast.

EBIDA margin was 16.7% for fiscal 2010. MADS coverage, based on MADS of $65 million, was 2.5x (or 2.3x on an operating lease-adjusted basis) based on June 30, 2010, fiscal year-end results.

Net excess income for the year was $38.1 million due to $24.6 million of interest-, dividend-, and derivative-related income.

Interim financial performance

Through the first three months of fiscal 2011 (Sept. 30, 2010), MSHA reported an operating loss of $2.7 million on $241 million in operating revenues. First-quarter losses are typical for MSHA since it is the system's practice is to be very conservative in realizing income early in the year. Last year the system reported a first-quarter operating loss of $2.4 million on $235 million of operating revenues.

Balance Sheet

MSHA's aggressive pace of acquisitions has positioned the system to compete effectively in its core service area; however, those investments have leveraged the system's balance sheet and limited the growth in unrestricted liquidity despite solid operating cash flow.

Unrestricted cash and investments totaled $576 million (or $550 million net of cash collateral posted against swaps) at fiscal year-end 2010, equal to 247 days' cash. Long-term debt to capitalization is high, at 77%. Due to high system leverage, year-end cash to debt was 53%, which is well below the median for the current rating. MSHA remains in compliance with all bond covenants. We expect that leverage and liquidity metrics will improve over the next several since the system's acquisition program has been complete. We understand that other than about $45 million of additional debt that MSHA expects to issue for a surgery center project in 2012, the system's current capital spending plans can be funded with cash flow.

The system's target asset allocations include maintaining 110 days' cash in high-quality and highly liquid fixed-income investments. Above 110 days' cash, the system may invest in equities up to an allocation limit of 50%. MSHA does not invest in hedge funds or in private equity.

Debt Derivative Profile

MSHA's DDP overall score is a '2.5' on a scale of '1' to '4', whereby '1' represents the lowest risk. The score of '2.5' reflects Standard & Poor's view that MSHA's swap exposure is a low to moderate credit risk at this time.

The key components of the overall DDP score of '2.5' are:

- Management practices are strong, and include a written swap policy, frequent communication of swap

performance to the board, good audit disclosure related to swaps, and the use of independent financial advisers to assist in evaluating swap strategies and performance.
- The termination and collateral-posting risk is offset from a credit standpoint by MSHA's collateral being clearly segregated from unrestricted liquidity, and none of the collateral is included in any of Standard & Poor's unrestricted liquidity calculations.

Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

Ratings Detail (As Of January 19, 2011)		
Mountain States Health Alliance		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd, Tennessee		
Mountain States Hlth Alliance, Tennessee		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance)		
Long Term Rating	BBB+/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2008A		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO Taxable ser 2007B-1		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Hlth Alliance) hosp rfdg rev bnds ser 2007B-2		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Hlth Alliance) hosp rfdg rev bnds ser 2007B-3		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Russell Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Russell Cnty Indl Dev Auth (Mountain States Health Alliance)		
Long Term Rating	BBB+/Stable	Affirmed
Russell Cnty Indl Dev Auth (Mountain States Health Alliance) hosp VRDO ser 2008B		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Smyth Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Smyth Cnty Indl Dev Auth (Mountain States Health Alliance)		

Ratings Detail (As Of January 19, 2011) **(cont.)**		
Long Term Rating	BBB+/Stable	Affirmed
Washington Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Washington Cnty Indl Dev Auth (Mountain States Health Alliance)		
Long Term Rating	BBB+/Stable	Affirmed

Many issues are enhanced by bond insurance.

STANDARD & POOR'S

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October 20, 2011

Mountain States Health Alliance, Tennessee; Letter of Credit

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Mountain States Health Alliance, Tennessee; Letter of Credit

Credit Profile		
US$15.96 mil hosp rev bnds ser 2011E due 07/01/2026		
Long Term Rating	A+/A-1	New

Profile	
Expected closing date:	Oct. 19, 2011
Maturity date:	July 1, 2026
Structure type:	Direct-pay letter of credit (LOC)
Obligor:	Mountain States Health Alliance
LOC providers:	Mizuho Corp. Bank Ltd. (rating dependency*)
Trustee:	Bank of New York Mellon Trust Co.

*Standard & Poor's rating on the bonds is linked to its rating on the LOC provider.

Rationale

Standard & Poor's Ratings Services assigned its 'A+/A-1' rating to Mountain States Health Alliance, Tenn.'s taxable bonds series 2011E. The 'A+' long-term component of the rating is based on the irrevocable direct-pay letter of credit (LOC) provided by Mizuho Corp. Bank Ltd. (A+/A-1) and reflects our opinion of the likelihood that bondholders will receive interest and principal payments when due if they do not exercise the put option. The 'A-1+' short-term component of our rating is based on the short-term component of the issuer credit rating on Mizuho Corp. Bank Ltd. (A+/A-1) and reflects our opinion of the likelihood that bondholders will receive interest and principal payments if they exercise the put option.

The LOC fully supports all bond payment obligations when the bonds are in the weekly interest mode. Therefore, our rating applies only during this covered mode. If the bonds are converted to a non-covered rate mode, we will likely withdraw our rating (see the Structural Analysis section for more information).

Transaction Highlights

The debt is variable rate with a bondholder option to demand repayment before the bonds mature (the put or tender option). The bondholders may exercise the put option at any time during the covered mode with appropriate notice to the trustee. Those bondholders choosing to exercise the put option will receive a price equal to par plus accrued interest funded with remarketing proceeds that the trustee holds and, in the event of a failed remarketing, with the amounts available under the LOC.

Structural Analysis

When evaluating the bonds, Standard & Poor's considers various risk factors, as described below.

LOC coverage for the covered mode

The LOC covers 37 days of interest accruals at a maximum interest rate and the entire bond principal amount. We believe the LOC's coverage is sufficient to pay interest and principal while the bonds are in the covered rate mode, even assuming maximum interest rate accruals (see table).

Maximum bond rate:	12%
First interest payment date:	Nov. 1, 2011
Covered mode interest payment date:	First business day of month
LOC interest reinstatement period:	One calendar day
Remedy for non-reinstatement:	Trustee will accelerate the bonds' maturity date, and interest shall cease to accrue one calendar day after declaration.
Interest accrual for covered mode(s):	The accrual period begins on an interest payment date and continues up to, but excluding, the next interest payment date.

Interest rate mode changes

In addition to covered modes, the transaction documents provide that the bonds may be converted to a medium-term or fixed interest rate mode (uncovered modes). While the bonds are in the uncovered modes, a put option is not available. Furthermore, we believe the LOC does not provide enough interest coverage to account for the additional days of interest that would accrue between interest payment dates during the uncovered modes. Despite these issues, we do not believe there is any mode conversion-related risk of a put option loss or an interest shortfall because the bonds are subject to a mandatory tender at par plus accrued interest before the rate mode can be changed.

The transaction terms do not expressly provide for the bonds to operate in multiple modes concurrently.

LOC termination

The transaction structure is such that the LOC could terminate before the bonds mature. If this happens, the bond documents call for the trustee to declare a date to repay the bonds in full before the LOC terminates. Therefore, we believe the LOC termination risk is addressed. The LOC is scheduled to expire on Oct. 19, 2014, unless it is extended or earlier terminates. The trustee shall declare a mandatory tender on the second business day prior to the LOC expiration date. In addition, for other events that cause the LOC to terminate, a mandatory tender funded by the LOC provider is a precondition for LOC cancellation.

LOC provider replacement

The transaction documents provide that the obligor may replace the LOC provider with appropriate notice to bondholders. The condition for replacing an existing LOC provider is that a mandatory tender must occur on the fifth business day prior to LOC replacement.

In our view, the conditions for replacing the LOC mitigate any risk that the existing bondholders would see the rating on their bonds lowered as a consequence of the LOC provider being replaced.

Additional bonds

The transaction terms do not expressly provide for additional bond issuances under the same series.

Ratings Sensitivity

In view of the bond structure, changes to our rating on the bonds in the covered mode can result from, among other things, changes to our rating on the LOC provider or amendments to the transaction's terms. We will maintain a rating on the bonds as long as they are in the covered mode and the LOC has not expired or otherwise terminated. If either of these conditions changes, we will likely withdraw our rating on the bonds.

Other Call Provisions

During the covered mode, bonds are subject to mandatory and optional redemptions. In all cases, the redemption price will at least equal par plus accrued interest and the repayments are backed by the LOC provider.

Related Criteria And Research

Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

STANDARD & POOR'S

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October 20, 2011

Johnson City Health & Educational Facilities Board, Tennessee Mountain States Health Alliance; Letter of Credit

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Johnson City Health & Educational Facilities Board, Tennessee
Mountain States Health Alliance; Letter of Credit

Credit Profile		
US$65.26 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2011A dtd 10/19/2011 due 07/01/2033		
Long Term Rating	AA-/A-1+	New
US$20.0 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2011B dtd 10/19/2011 due 07/01/2033		
Long Term Rating	A+/A-1	New

Profile	
Expected closing date:	Oct. 19, 2011
Maturity date:	July 1, 2033
Structure type:	Direct-pay letter of credit (LOC)
Obligor:	Mountain States Health Alliance
LOC providers:	Series 2011A: U.S. Bank N.A. (rating dependency*); series 2011B: PNC Bank N.A. (rating dependency*)
Trustee:	Bank of New York Mellon Trust Co.

*Standard & Poor's rating on the bonds is linked to its rating on the LOC provider.

Rationale

Standard & Poor's Ratings Services assigned its 'AA-/A-1+' and 'A+/A-1'rating to Johnson City Health & Educational Facilities Board, Tenn.'s (Mountain States Health Alliance) hospital revenue bonds series 2011A and 2011B. The 'AA-' long-term component of the rating on the 2011A bonds is based on the irrevocable direct-pay letter of credit (LOC) provided by U.S. Bank N.A. (AA-/A-1+). The 'A+' long-term component of the rating on the 2011B bonds is based on the irrevocable direct-pay LOC provided by PNC Bank N.A. (A+/A-1). The long-term component of each rating reflects our opinion of the likelihood that bondholders will receive interest and principal payments when due if they do not exercise the put option. The 'A-1+' short-term component of the rating on the 2011A bonds is based on the short-term component of the issuer credit rating on U.S. Bank N.A. The 'A-1' short-term component of the rating on the 2011B bonds is based on the short-term component of the issuer credit rating on PNC Bank N.A. The short-term component of the rating reflects our opinion of likelihood that bondholders will receive interest and principal payments if they exercise the put option.

Each LOC fully supports all bond payment obligations when the bonds are in the weekly interest mode. Therefore, our rating applies only during this covered mode. If the bonds are converted to a non-covered rate mode, we will likely withdraw our rating (see the Structural Analysis section for more information).

Transaction Highlights

The debt is variable rate with a bondholder option to demand repayment before the bonds mature (the put or tender option). The bondholders may exercise the put option at any time during the covered mode with appropriate notice to the trustee. Those bondholders choosing to exercise the put option will receive a price equal to par plus accrued interest funded with remarketing proceeds that the trustee holds and, in the event of a failed remarketing, with the amounts available under the LOC.

Structural Analysis

When evaluating the bonds, Standard & Poor's considers various risk factors, as described below.

LOC coverage for the covered mode

Each LOC covers 37 days of interest accruals at a maximum interest rate and the entire bond principal amount. We believe each LOC's coverage is sufficient to pay interest and principal while the bonds are in the covered rate mode, even assuming maximum interest rate accruals (see table).

Maximum bond rate:	12%
First interest payment date:	Nov. 1, 2011
Covered mode interest payment date:	First business day of month
LOC interest reinstatement period:	One calendar day
Remedy for non-reinstatement:	Trustee will accelerate the bonds' maturity date, and interest shall cease to accrue one calendar day after declaration.
Interest accrual for covered mode(s):	The accrual period begins on an interest payment date and continues up to, but excluding, the next interest payment date.

Interest rate mode changes

In addition to covered modes, the transaction documents provide that the bonds may be converted to a medium-term or fixed interest rate mode (uncovered modes). While the bonds are in the uncovered modes, a put option is not available. Furthermore, we believe the LOC does not provide enough interest coverage to account for the additional days of interest that would accrue between interest payment dates during the uncovered modes. Despite these issues, we do not believe there is any mode conversion-related risk of a put option loss or an interest shortfall because the bonds are subject to a mandatory tender at par plus accrued interest before the rate mode can be changed.

The transaction terms do not expressly provide for the bonds to operate in multiple modes concurrently.

LOC termination

The transaction structure is such that the LOCs could terminate before the bonds mature. If this happens, the bond documents call for the trustee to declare a date to repay the bonds in full before the LOCs terminate. Therefore, we believe LOC termination risk is addressed. Each LOC is scheduled to expire on Oct. 19, 2014, unless it is extended or earlier terminates. The trustee shall declare a mandatory tender on the second business day prior to the LOC expiration date. In addition, for other events that cause the LOC to terminate, a mandatory tender funded by the LOC provider is a precondition for LOC cancellation.

LOC provider replacement

The transaction documents provide that the obligor may replace each LOC provider with appropriate notice to bondholders. The condition for replacing an existing LOC provider is that a mandatory tender must occur on the fifth business day prior to LOC replacement.

In our view, the conditions for replacing the LOC mitigate any risk that the existing bondholders would see the rating on their bonds lowered as a consequence of the LOC provider being replaced.

Additional bonds

The transaction terms do not expressly provide for additional bond issuances under the same series.

Ratings Sensitivity

In view of the bond structure, changes to our rating on the bonds in the covered mode can result from, among other things, changes to our rating on each LOC provider or amendments to the transaction's terms. We will maintain a rating on the bonds as long as they are in the covered mode and each LOC has not expired or otherwise terminated. If either of these conditions changes, we will likely withdraw our rating on the bonds.

Other Call Provisions

During the covered mode, bonds are subject to mandatory and optional redemptions. In all cases, the redemption price will at least equal par plus accrued interest and the repayments are backed by the LOC provider.

Related Criteria And Research

Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

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October 20, 2011

Smyth County Industrial Development Authority, Virginia Mountain States Health Alliance; Letter of Credit

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Smyth County Industrial Development Authority, Virginia
Mountain States Health Alliance; Letter of Credit

Credit Profile		
US$60.705 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2011D dtd 10/19/2011 due 07/01/2031		
Long Term Rating	A+/A-1	New
US$49.875 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2011C dtd 10/19/2011 due 07/01/2031		
Long Term Rating	AA-/A-1+	New

Profile:	
Expected closing date:	Oct. 19, 2011
Maturity date:	July 1, 2031
Structure type:	Direct-pay letter of credit (LOC)
Obligor:	Mountain States Health Alliance
LOC providers:	Series 2011C: U.S. Bank N.A. (rating dependency*), series 2011D: Mizuho Corp. Bank Ltd. (rating dependency*)
*Standard & Poor's rating on the bonds is linked to its rating on the LOC provider.	

Rationale

Standard & Poor's Ratings Services assigned its 'AA-/A-1+' and 'A+/A-1' ratings to Smyth County Industrial Development Authority, Va.'s (Mountain States Health Alliance) hospital revenue bonds series 2011C and 2011D, respectively. The 'AA-' long-term component of the rating on series 2011C is based on the irrevocable direct-pay letter of credit (LOC) provided by U.S. Bank N.A. (AA-/A-1+). The 'A+' long-term component of the rating on series 2011D is based on the irrevocable direct-pay LOC provided by Mizuho Corp. Ltd. (A+/A-1). The long-term component of each rating reflects our opinion of the likelihood that bondholders will receive interest and principal payments when due if they do not exercise the put option. The 'A-1+' short-term component of the rating on series 2011C is based on the short-term component of the issuer credit rating on U.S. Bank N.A. The 'A-1' short-term component of the rating on series 2011D is based on the short-term component of the issuer credit rating on Mizuho Corp. LTD (A-1). The short-term component of the rating reflects our opinion of the likelihood that bondholders will receive interest and principal payments if they exercise the put option.

Each LOC fully supports all bond payment obligations when the bonds are in the weekly interest mode. Therefore, our rating applies only during this covered mode. If the bonds are converted to a non-covered rate mode, we will likely withdraw our rating (see the Structural Analysis section for more information).

Transaction Highlights

The debt is variable rate with a bondholder option to demand repayment before the bonds mature (the put or tender option). The bondholders may exercise the put option at any time during the covered mode with appropriate notice to the trustee. Those bondholders choosing to exercise the put option will receive a price equal to par plus accrued interest funded with remarketing proceeds that the trustee holds and, in the event of a failed remarketing, with the amounts available under the LOC.

Structural Analysis

When evaluating the bonds, Standard & Poor's considers various risk factors, as described below.

LOC coverage for the covered mode

Each LOC covers 37 days of interest accruals at a maximum interest rate and the entire bond principal amount. We believe each LOC's coverage is sufficient to pay interest and principal while the bonds are in the covered rate mode, even assuming maximum interest rate accruals (see table).

Maximum bond rate:	12%
First interest payment date:	Nov. 1, 2011
Covered mode interest payment date:	First business day of month
LOC interest reinstatement period:	One calendar day
Remedy for non-reinstatement:	Trustee will accelerate the bonds' maturity date, and interest shall cease to accrue one calendar day after declaration.
Interest accrual for covered mode(s):	The accrual period begins on an interest payment date and continues up to, but excluding, the next interest payment date.

Interest rate mode changes

In addition to covered modes, the transaction documents provide that the bonds may be converted to a medium-term or fixed interest rate mode (uncovered modes). While the bonds are in the uncovered modes, a put option is not available. Furthermore, we believe the LOC does not provide enough interest coverage to account for the additional days of interest that would accrue between interest payment dates during the uncovered modes. Despite these issues, we do not believe there is any mode conversion-related risk of a put option loss or an interest shortfall because the bonds are subject to a mandatory tender at par plus accrued interest before the rate mode can be changed.

The transaction terms do not expressly provide for the bonds to operate in multiple modes concurrently.

LOC termination

The transaction structure is such that the LOCs could terminate before the bonds mature. If this happens, the bond documents call for the trustee to declare a date to repay the bonds in full before the LOCs terminate. Therefore, we believe LOC termination risk is addressed. Each LOC is scheduled to expire on Oct. 19, 2014, unless it is extended or earlier terminates. The trustee shall declare a mandatory tender on the second business day prior to the LOC expiration date. In addition, for other events that cause the LOC to terminate, a mandatory tender funded by the LOC provider is a precondition for LOC cancellation.

LOC provider replacement

The transaction documents provide that the obligor may replace each LOC provider with appropriate notice to bondholders. The condition for replacing an existing LOC provider is that a mandatory tender must occur on the fifth business day prior to LOC replacement.

In our view, the conditions for replacing the LOC mitigate any risk that the existing bondholders would see the rating on their bonds lowered as a consequence of the LOC provider being replaced.

Additional bonds

The transaction terms do not expressly provide for additional bond issuances under the same series.

Ratings Sensitivity

In view of the bond structure, changes to our rating on the bonds in the covered mode can result from, among other things, changes to our rating on each LOC provider or amendments to the transaction's terms. We will maintain a rating on the bonds as long as they are in the covered mode and each LOC has not expired or otherwise terminated. If either of these conditions changes, we will likely withdraw our rating on the bonds.

Other Call Provisions

During the covered mode, bonds are subject to mandatory and optional redemptions. In all cases, the redemption price will at least equal par plus accrued interest and the repayments are backed by the LOC provider.

Related Criteria And Research

Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

January 23, 2012

Johnson City Health and Education Facilities Board, Tennessee Mountain States Health Alliance; Joint Criteria; System

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Johnson City Health and Education Facilities Board, Tennessee
Mountain States Health Alliance; Joint Criteria; System

Credit Profile		
Johnson City Hlth & Ed Fac Brd, Tennessee		
Mountain States Hlth Alliance, Tennessee		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2011A		
Long Term Rating	AAA/A-1	Upgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Rating Assigned
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2011B		
Long Term Rating	AA+/A-1	Upgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Rating Assigned
Smyth Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Smyth Cnty Indl Dev Auth (Mountain States Health Alliance) hosp VRDO ser 2011D		
Long Term Rating	AAA/A-1	Upgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Rating Assigned
Smyth Cnty Indl Dev Auth (Mountain States Health Alliance) hosp VRDO 2011C		
Long Term Rating	AAA/A-1	Upgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Rating Assigned

Rationale

Standard & Poor's Ratings Services assigned its 'BBB+' underlying rating (SPUR) to Mountain States Health Alliance (MSHA), Tenn.'s series 2011A, 2011B, 2011C, 2011D, and 2011E bonds from various issuers. At the same time, Standard & Poor's affirmed its 'BBB+' issuer credit rating (ICR) on MSHA and its 'BBB+' long-term rating and SPUR on existing rated bonds from various issuers for MSHA. The outlook is stable.

The 'BBB+' ratings reflect our view of MSHA's:

- Excellent business position, which is characterized by solid demographics, a high market share, and a broad range of services;
- Strong management and governance, which is reflected in a favorable performance record since the system's creation in 1998;
- Continued strong financial performance, highlighted by very strong fiscal-year EBITDA margins, an eighth consecutive year of operating profitability in fiscal 2011, and solid liquidity for the rating level based on days' cash on hand; and
- More moderate capital spending needs during the next five years and no sizable incremental debt plans, which will likely support further growth in unrestricted liquidity and a reduction in leverage over time.

MSHA's $235 million series 2011A, 2011B, 2011C, 2011D, and 2011E bonds were issued for a variety of purposes, including refunding taxable series 2007B bonds to convert them to tax-exempt obligations, reimbursing MSHA for projects and equipment funded from cash reserves, funding $14 million of the $66 million Smyth County replacement hospital construction project, achieving interest rate and letter of credit (LOC) fee savings, and diversifying the institutions that provide credit enhancements. With the series 2011 debt refinancing, MSHA added Norton Community Hospital and Smyth County Community Hospital to its obligated group -- although analytically Standard & Poor's evaluates the consolidated Mountain States Health Alliance, not the obligated group.

On Oct. 19, 2011, MSHA's series 2011A and series 2011C bonds were assigned an 'A+/A-1' rating based on the irrevocable direct-pay LOCs provided by U.S. Bank N.A. (A+/A-1). Series 2011B was assigned an 'A/A-1' rating based on the LOC provided by PNC Bank N.A. (A/A-1). Series 2011D and series 2011E were assigned an 'A+/A-1' rating based on LOCs provided by Mizuho Corp Ltd (A+/A-1).

With the assignment of the SPURs to the series 2011A, 2011B, 2011C, 2011D, and 2011E bonds, MSHA has requested that Standard & Poor's apply its criteria for rating jointly supported obligations to the bonds, for which both MSHA as the obligor and the direct-pay LOC provider are fully responsible for repayment. Based on the low correlation joint support of MSHA and U.S. Bank N.A, Standard & Poor's assigned its 'AAA/A-1' long-term rating to MSHA's series 2011A and 2011C obligations. Based on low correlation joint support of MSHA and PNC Bank N.A., Standard & Poor's assigned its 'AA+/A-1' long-term rating to MSHA's series 2011B bonds. And, based on the low correlation joint support of MSHA and Mizuho Bank Ltd., Standard & Poor's assigned its 'AAA/A-1' rating to MSHA's 2011D and 2011E series obligations.

As of its June 30, 2011 fiscal year-end, MSHA had $1.04 billion of long-term debt and capital lease obligations outstanding. We understand MSHA's plans for additional debt during the next few years will likely be limited to a $50 million issue in fiscal 2013 for the surgery tower project, as the system expects to be able to fund most of its remaining capital needs with cash flow and reserves. However, currently, MSHA's sizable debt and accompanying high leverage remain the system's most significant credit risks, in our view. The system has a debt-to-capital ratio of 69.5% and a debt burden of 6.8% of revenue. Even with typical EBITDA margins of 16% to 18%, maximum annual debt service (MADS) coverage has historically been below median 'BBB+' levels, although MADS coverage levels have improved during the past two years to be consistent with the 'BBB+' median of 2.7x.

Standard & Poor's Debt Derivative Profile (DDP) overall score on MSHA's swap portfolio is '2.5' on a scale of '1.0' to '4.0' in which '1.0' represents the lowest risk. The overall DDP score of '2.5' reflects Standard & Poor's view that MSHA's swap exposure reflects low to moderate credit risk at this time. MSHA has two total return swaps with a total notional amount of $50 million, whose counterparty was Lehman Brothers Special Financing Inc., guaranteed by Lehman Brothers Inc. The timing for the termination of those swaps is uncertain pending the resolution of issues related to Lehman's bankruptcy although a mediation hearing was scheduled in early December to discuss a settlement related to swap termination. MSHA has posted $13.8 million of collateral against the Lehman swaps. Standard & Poor's does not count collateral funds as unrestricted liquidity, so the possibility of paying a termination cost is not likely to have a material credit impact.

Bank of America is the counterparty for two other swaps -- a $438 million constant maturity swap with a negative mark-to-market (MTM) value of $2.0 million, and $5.6 million positive annual cash flow, and a $132 million basis swap (converted from fixed payer to reduce the negative carry and MTM volatility) with an MTM value of negative $22 million, against which MSHA had $5.8 million of posted collateral (all figures as of November 2011).

MSHA had $514 million of unrestricted liquidity on Sept. 30, 2011. Should the swaps terminate, MSHA will lose the positive annual cash flow from the swaps, which historically has exceeded $2 million annually; however, MSHA will also be relieved of the negative carry on its swaps (currently about $800,000 per year) if the full portfolio is terminated.

Outlook

The stable outlook reflects our view of MSHA's business position, the benefits of the system's acquisition activity during the past several years, MSHA's favorable record of integrating acquired facilities, and the natural improvement in debt ratios that has started to occur. Also adding to credit stability, in our view, is MSHA's history of maintaining solid earnings. However, the system's high debt burden remains a credit risk, in our view. While we could raise the ratings in the future, we do not expect to do so until MSHA's debt levels moderate, and we would expect long-term debt to total capitalization to decline to a level below 50% without a diminution of MSHA's liquidity. We would also expect that the organization's business position would remain strong, as demonstrated by stable to improving patient volumes and solid cash flow. Although not anticipated, should balance sheet metrics weaken, we could take a negative rating action.

Enterprise Profile

Since its formation in 1998, MSHA has tripled its asset base and more than tripled net patient revenues to almost $2.0 billion and $960 million, respectively. Due in large part to the system's acquisition strategy, the system's pro forma debt has doubled since 2005 and is now very high, in our view, at more than $1 billion. The system's growth was accomplished through strategic hospital acquisitions in its core northeastern Tennessee and southwest Virginia service areas.

MSHA owns and operates 11 acute-care facilities and one psychiatric hospital led by the flagship Johnson City Medical Center, a 514-licensed-bed (including 69 beds associated with Niswonger Children's Hospital) tertiary regional provider. The system's hospital facilities include 1,749 licensed acute-care beds although MSHA's licensed beds will decline to 1,623 once the new, smaller 44-bed Smyth county replacement hospital is completed. The system also includes a range of outpatient facilities and ancillary services, such as a home health agency, a hospice, and other facilities such as the ownership and management of medical office buildings.

As part of its physician integration efforts, MSHA has consolidated its employed physician practices into Mountain States Medical Group, which currently employs about 400 physicians. MSHA has steadily reduced physician practice losses through increased physician leadership including regional Chief Medical Officers, the attrition of less productive physicians, improvements in compensation when contracts are renewed, and other efficiency measures.

Since the system's creation, management and governance have evolved effectively, in our view. A strong central leadership is focused on maximizing the system's potential as a whole, as evidenced by the consolidation efforts in its core market of Washington County. In addition, management has broadened the access to managed-care contracts for all of the facilities while centralizing the negotiations at the system level. It has also centralized other functions like billing and collections, purchasing, and laboratory services. The board improved its effectiveness by reducing its size to a very manageable 13 members, and has upheld its values of strong planning, education, and transparency.

Today, as it approaches the changing health care landscape MSHA's leadership remains focused on quality, ongoing physician integration, smart growth through service line and revenue cycle opportunities, cost reduction initiatives, and on the development and implementation of new accountable care models, initially for the hospital's own employee population (15,000 lives), and for its Medicare patient base.

Market position

The system's defined market area has broadened significantly due to its acquisition activity. The core service area encompasses 13 counties in Tennessee and Virginia, of which MSHA has a 52.3% market share. Currently only 27% of the system's patients originate from its original home county of Washington County, Tenn. In the broader 29-county service area, MSHA has a 37% share; MSHA's main competitor, Wellmont, holds about a 30% share. There is no significant third player.

We believe that the spate of acquisitions by both MSHA and Wellmont have largely played out as there are very few remaining independent hospitals in the region. While the service area remains very competitive, its market characteristics remain favorable in terms of population growth, and the market's size will continue to support two sizable competitors, in our opinion.

While MSHA's market share is extremely strong in the core Washington County market, Wellmont Health System dominates in adjacent Sullivan County. Historically, Sullivan County was the only part of MSHA's primary service area where the two systems competed head to head, whereas in other parts of their service areas, MSHA and Wellmont generally did not overlap. However, they are increasingly overlapping in their service areas. For example, MSHA traditionally had no hospitals in Virginia, while Wellmont did. However, recent affiliations with the five Virginia hospitals have introduced MSHA into a service area that traditionally has fed Wellmont's facilities. The two systems now compete head-on in Norton, Va., a two-hospital town where in 2007 MSHA acquired a 50.1% ownership Norton Community Hospital, while Wellmont acquired the other one (Mountain View).

Projects update

Smyth County Community Hospital is a $66 million, 44-bed replacement hospital for the more than 40-year-old local community hospital. Funding for the project is coming from series 2011 bonds ($14 million) and operating reserves. Management expects the project to be complete by April 2012.

Series 2009E bonds funded MSHA's acquisition of a 50.1% interest in the 135-bed Johnson Memorial Hospital (JMH) in April 2009. In July 2011 MSHA completed and opened a 250,000-square-foot Gold LEED certified replacement hospital next to the JMH cancer center in Abingdon, VA.

In January 2012 MSHA commenced a $69 million surgery tower project at Johnson City Medical Center. The number of operating room suites will remain at 16; however, the renovation will expand the space in each suite to accommodate modern equipment. In addition, the project will structurally allow MSHA to build eight additional floors for a future bed tower when additional capacity is needed (although there are currently no plans to construct the tower). The surgery project will be funded by a $50 million bond issue in fiscal 2013 and from operations and reserves and a small amount of philanthropy. The project is estimated for completion in October 2013. We understand that MSHA has no other major committed capital projects beyond 2013.

Financial Profile

MSHA again demonstrated solid operating performance improvement during fiscal 2011, in our view. For the fiscal year ended June 30, 2011, net operating income climbed to $20.5 million, or a 2.1% margin, on $960 million in total operating revenues, compared with $13.5 million, or a 1.4% margin, on $928 million in revenues in fiscal 2010. MSHA's operating performance in fiscal 2011 was on target with budget. Inpatient admissions grew to 61,035 (or 1.6%) in fiscal 2011 from 60,101 in fiscal 2010. Volume growth was supported by an increase in medical admissions. Following several years of growth, outpatient volumes declined to 1.59 million (or 0.82%) in 2011 from 1.60 million in 2010 as MSHA's medical screening initiative shifted many patients to clinics and away from the emergency department, and as payers took a more stringent posture on certain procedures such as imaging. The system is forecasting modest increases in both inpatient and outpatient volume of 1.1% and 2.6%, respectively, in fiscal 2012. MSHA is projecting a fiscal 2012 operating margin of 2.5% and an excess margin of 4.0%, which we consider reasonable, particularly given management's historical ability to meet its targets.

No stimulus funds are included in MSHA's five-year operating income forecast; however, the system estimates that it will be eligible for about $57 million in stimulus payments between 2012 and 2016 related to its IT investments. Management believes that within three years all of its hospitals will be on one IT platform

For fiscal 2011 MSHA's EBITDA margin was 17.6%, compared with 16.7% for fiscal 2010. MADS coverage, based on MADS of $68.2 million, was 2.6x (or 2.4x on an operating lease-adjusted basis) based on June 30, 2011 fiscal year-end results.

Net excess income for fiscal 2011 was $41.1 million due to $23.3 million of interest, dividend, and derivative-related income.

Interim financial performance

Through the first three months of fiscal 2012 (Sept. 30, 2011), MSHA reported an operating income of $8.8 million (inclusive of minority interests, as per Standard & Poor's methodology) on $254 million in operating revenues, which compared favorably with MSHA's first-quarter fiscal 2010 operating loss of $2.7 million on $241 million in operating revenues. Historically, first-quarter losses have been typical for MSHA since it is the system's practice to be very conservative in realizing income early in the year. For fiscal 2012 total operating revenues increased by 3.7% relative to the same period last year while operating expenses climbed a more modest 1.4%, on reduced use of contract labor, lower supplies expenses, and reductions in bad debt expense, interest, and depreciation.

Balance sheet

During the past several years MSHA's aggressive pace of acquisitions positioned the system to compete effectively in its core service area. However, those investments leveraged the system's balance sheet and for a while limited the growth in MSHA's unrestricted liquidity despite robust operating cash flow. Given that major acquisition and construction activity is completed, and with a low current 6.5-year average age of plant, we believe that MSHA will likely be able to remain at or near its goal of 250 days' cash and reduce debt outstanding when cash exceeds that level. However, in fiscal 2012 MSHA projects days' cash will decline to 232 from funding capital spending out of cash reserves.

Unrestricted cash and investments totaled $597 million at fiscal year-end 2011, equal to 251 days' cash. Long-term debt to capitalization is high, in our view, at 69.5%, although MSHA continues to pay down its long-term debt, and prior to fiscal year-end paid off about $9.3 million of notes. Due to high system leverage, year-end cash to debt was 57%, which was improved over last year but remains well below the median for the current rating. MSHA remains in compliance with all bond covenants. We anticipate that leverage and liquidity metrics will improve over the next several years since the system's acquisition program and major capital spending initiatives have been completed. We understand that other than about $50 million of additional debt that MSHA expects to issue for a surgery center project during fiscal 2013, the system's current capital spending plans can be funded with cash flow.

The system's target asset allocations include maintaining 110 days' cash in high-quality and highly liquid fixed-income investments. Above 110 days' cash, the system may invest in equities up to an allocation limit of 50%. MSHA does not invest in hedge funds or in private equity.

Debt Derivative Profile

MSHA's DDP overall score is a '2.5' on a scale of '1' to '4' in which '1' represents the lowest risk. The score of '2.5' reflects Standard & Poor's view that MSHA's swap exposure is a low to moderate credit risk at this time.

The key components of the overall DDP score of '2.5' are:

- Management practices are strong and include a written swap policy, frequent communication of swap performance to the board, good audit disclosure related to swaps, and the use of independent financial advisers to assist in evaluating swap strategies and performance.
- The termination and collateral posting risk is offset from a credit standpoint by the clear segregation of MSHA's collateral from unrestricted liquidity, and none of the collateral is included in any of Standard & Poor's unrestricted liquidity calculations.

In fiscal 2011 MSHA reconfigured its swaps to lock in positive cash flow of $16 million over three years on $435 million of constant maturity swaps, and converted its $132 million of fixed payer swaps to basis swaps, which will reduce their overall MTM volatility and collateral posting requirements. In addition, in 2011 MSHA terminated its swaption agreement with JP Morgan at no incremental cost. MSHA plans to terminate the $132 million of basis swaps when market conditions allow, and to resolve the Lehman swap termination on $106 million of total return and fixed payer swaps as soon as possible.

Mountain States Health Alliance, Tennessee Financial Statistics

		Fiscal Year Ended		
	Year-to-date as of Sept. 30, 2011	2011	2010	2009
Financial performance				
Net patient revenue ($000s)	244,499	960,254	928,270	822,898
Total operating revenue ($000s)	254,344	978,018	945,392	839,944
Total operating expenses ($000s)	245,498	957,518	931,850	832,941
Net nonoperating income ($000s)	5,739	20,600	24,589	14,234
Operating margin (%)	3.48	2.10	1.43	0.83
Excess margin (%)	5.61	4.12	3.93	2.49
Operating EBIDA margin (%)	15.57	15.82	14.53	14.38
EBIDA margin (%)	17.44	17.56	16.7	15.8
Net available for debt service ($000s)	45,351	175,311	161,954	134,985

Mountain States Health Alliance, Tennessee Financial Statistics (cont.)				
Maximum annual debt service ($000s)	68,199	68,199	65,000	65,000
Maximum annual debt service coverage (x)	2.66	2.57	2.49	2.08
Operating lease-adjusted coverage (x)		2.38	2.29	1.94
Liquidity and financial flexibility				
Unrestricted cash and investments ($000s)	514,263	597,435	578,452	515,066
Unrestricted days' cash on hand	206.6	251.4	248.3	245.9
Unrestricted cash/total long-term debt (%)	50.0	57.4	54.8	49.5
Cash available within 30 days/contingent liability (%)				
Average age of plant (years)	8.2	6.5	7	7.4
Capital expenditures/Depreciation and amortization (%)		191.9	211.2	187.6
Debt and Liability				
Total long-term debt ($000)	1,029,138	1,040,923	1,054,842	1,040,944
Long-term debt/capitalization (%)	72.4	69.5	77.2	78.5
Contingent liability ($000)				
Contingent liability/total long-term debt (%)				
Debt burden (%)	6.55	6.81	6.70	7.61

Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

Ratings Detail (As Of January 23, 2012)		
Mountain States Health Alliance hosp VRDO		
Long Term Rating	AAA/A-1	Upgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Rating Assigned
Mountain States Health Alliance		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Mountain States Health Alliance ICR		
Long Term Rating	BBB+/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd, Tennessee		
Mountain States Hlth Alliance, Tennessee		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance)		
Long Term Rating	BBB+/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2007B2		
Long Term Rating	AA+/A-1	Downgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2007B3		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed

Ratings Detail (As Of January 23, 2012) **(cont.)**		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Downgraded
Russell Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Russell Cnty Indl Dev Auth (Mountain States Health Alliance)		
Long Term Rating	NR	
Russell Cnty Indl Dev Auth (Mountain States Health Alliance) hosp VRDO ser 2008B		
Long Term Rating	AAA/A-1	Downgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Smyth Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Smyth Cnty Indl Dev Auth (Mountain States Health Alliance)		
Long Term Rating	BBB+/Stable	Affirmed
Washington Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Washington Cnty Indl Dev Auth (Mountain States Health Alliance)		
Long Term Rating	BBB+/Stable	Affirmed

Many issues are enhanced by bond insurance.

Mountain States Health Alliance, Tennessee; Joint Criteria; System

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Mountain States Health Alliance, Tennessee; Joint Criteria; System

Credit Profile		
US$54.90 mil fixed rate bnds ser 2012A		
Long Term Rating	BBB+/Stable	New
US$30.230 mil hosp rev bnds ser 2012B due 07/01/2035		
Unenhanced Rating	BBB+(SPUR)/Stable	New
US$9.785 mil var rate structure bnds ser 2012C		
Unenhanced Rating	BBB+(SPUR)/Stable	New
Mountain States Health Alliance ICR		
Long Term Rating	BBB+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'BBB+' long-term rating to Mountain States Health Alliance (MSHA), Tenn.'s $54.9 million series 2012A bonds, and its 'BBB+' underlying rating (SPUR) to MSHA's $30.2 million series 2012B bonds, issued by The Health and Educational Facilities Board of the City of Johnson City, Tenn., and $9.8 million series 2012C variable-rate structure bonds issued by Wise County Industrial Development Authority.

At the same time, Standard &Poor's affirmed its 'BBB+' issuer credit rating (ICR) on MSHA, and its 'BBB+' long-term rating and SPUR on existing rated bonds from various issuers for MSHA. The outlook on all ratings is stable.

The 'BBB+' ratings reflect our view of MSHA's:

- Excellent business position, which is characterized by solid demographics, a high market share, and a broad range of services;
- Strong management and governance, which is reflected in a favorable performance record since the system's creation in 1998;
- Continued strong financial performance, highlighted by solid EBITDA margins, a 10th consecutive year of operating profitability in fiscal 2012, and solid liquidity for the rating level based on days' cash on hand; and
- More moderate capital spending needs during the next five years, and no sizable incremental debt plans, which will likely support further growth in unrestricted liquidity and a reduction in leverage over time.

Proceeds from MSHA's series 2012 bonds will be used to construct a surgical tower at Johnson City Medical Center, to reimburse $26.5 million for previous capital spending, and to refinance debt and leases outstanding to achieve interest rate and letter of credit (LOC) fee savings. Concurrent with the issuance of the rated bonds, MSHA is issuing $18.4 million of taxable variable-rate direct purchase debt to Bank of America that is not being rated. Combined, new money associated with the 2012A, 2012B, and 2012C bonds and unrated direct purchase debt is approximately $89 million.

While the assigned SPURs on MSHA's $40 million series 2012B and 2012C obligations are 'BBB+', we expect to assign long-term and short-term ratings of 'A+/A-1' based on credit enhancement provided by irrevocable direct-pay LOCs from Mizuho Corp. Ltd. (A+/A-1). MSHA has also requested that Standard & Poor's apply its criteria for rating jointly supported obligations, for which both MSHA as the obligor, and Mizuho Bank as LOC provider, are fully responsible for repayment. Based on the low correlation joint support of MSHA and Mizuho, we expect to assign a 'AAA/A-1' joint support rating to the series 2012B and 2012C obligations.

As of its fiscal year ended June 30, 2012 (unaudited), MSHA had $1.07 billion of long-term debt and capital lease obligations outstanding. We understand that MSHA has no plans to issue a significant amount of additional debt during the next few years as management expects to fund most of its remaining capital needs with cash flow and reserves. MSHA may convert its remaining $125 million of taxable debt outstanding to tax exempt; however, the conversion would not represent any additional debt other than costs of issuance and any required reserves. Currently MSHA's sizable debt and accompanying high leverage remain the system's most significant credit risks, in our opinion. One of management's goals is to reduce leverage. The system has a pro forma debt to capital ratio of approximately 66% and a debt burden of 7.5% of revenue. Even with typical EBITDA margins of 16% to 18%, maximum annual debt service (MADS) coverage has historically been below median 'BBB+' levels. However, MADS coverage improved modestly during the past two years to approximately 2.6x, and will be 2.1x to 2.3x on a pro forma basis, which is in line with the 'BBB+' median.

MSHA has $106 million total notional amount of total return and fixed payer swaps whose counterparty was Lehman Brothers Special Financing Inc., guaranteed by Lehman Brothers Inc. The timing for the termination of those swaps is uncertain pending the resolution of issues related to Lehman's bankruptcy and mediation of settlement terms. MSHA has posted $13.8 million of collateral against the Lehman swaps. Standard & Poor's does not count collateral funds as unrestricted liquidity, so the possibility of paying a termination cost is not likely to have a material credit impact.

Bank of America is the counterparty for five other swaps -- $438 million constant maturity swaps with a mark-to-market (MTM) value of $6.6 million and $5.6 million positive annual cash flow, and $132 million of basis swaps (converted from fixed payer to reduce the negative carry and MTM volatility) with an MTM value of negative $17.7 million, against which MSHA has no posted collateral (all figures as of July 20, 2012). MSHA also has a $21.4 million total return swap in place related to the series 2001A bonds outstanding.

Outlook

The stable outlook reflects our view of MSHA's business position, the benefits of the system's acquisition activity during the past several years, MSHA's favorable record of integrating acquired facilities, and the natural improvement in debt ratios that will likely occur over time. Also adding to credit stability, in our view, is MSHA's history of maintaining solid earnings although we believe the system's high debt burden remains a credit risk. While we could raise the ratings in the future, we do not expect to do so until MSHA's MADS coverage equals or exceeds 3.0x, cash to long-term debt approaches 1.0x, and debt to capitalization declines to roughly 55%. We would also expect that the organization's business position would remain strong, as demonstrated by stable to improving patient volumes and solid cash flow. Although not anticipated, should balance sheet metrics weaken, we could take a negative rating action.

Enterprise Profile

Since its formation in 1998, MSHA has tripled its asset base and more than tripled net patient revenues to almost $2.0 billion and $978 million, respectively. Due in large part to the system's acquisition strategy, the system's pro forma debt has approximately doubled since 2005 to more than $1.0 billion, equal to about 66% of capitalization, which we consider elevated. The system's growth was accomplished through strategic hospital acquisitions in its core northeastern Tennessee and southwest Virginia service areas.

MSHA owns and operates 11 acute-care facilities and one psychiatric hospital, led by the flagship Johnson City Medical Center, a 514-licensed-bed (including 69 beds associated with Niswonger Children's Hospital) tertiary regional provider. The system's hospital facilities include 1,623 licensed acute-care beds. The system also consists of a range of outpatient facilities and ancillary services, such as a home health agency, a hospice, and other facilities such as the ownership and management of medical office buildings.

As part of its physician integration efforts, MSHA has consolidated its employed physician practices into Mountain States Medical Group, which currently employs about 400 physicians. MSHA has steadily reduced physician practice losses through increased physician leadership including regional chief medical officers, the attrition of less productive physicians, improvements in compensation when contracts are renewed, and other efficiency measures.

Management

Since the system's creation, management and governance have evolved effectively, in our view. A strong central leadership team is focused on maximizing the system's potential as a whole, as demonstrated by the consolidation efforts in its core market of Washington County. In addition, management has broadened the access to managed-care contracts for all of the facilities while centralizing the negotiations at the system level. It has also centralized other functions like billing and collections, purchasing, and laboratory services. The board improved its effectiveness by reducing its size to 13 members and has upheld its values of strong planning, education, and transparency.

Today, as it approaches the changing health care landscape MSHA's leadership remains focused on quality, ongoing physician integration, smart growth through service line and revenue cycle opportunities, cost reduction initiatives, and the development and implementation of new accountable care models, initially for the hospital's own employee population (approximately 15,000 lives), and for its Medicare patient base.

Market position

The system's core service area encompasses 13 counties in Tennessee and Virginia, and MSHA has a 53% market share. Currently, only 27% of the system's patients originate from its original home county of Washington County, Tenn. In the broader 29-county service area, MSHA has a 38% share. MSHA's main competitor, Wellmont, holds about a 30% share. There is no significant third player.

We believe that the spate of acquisitions by both MSHA and Wellmont have largely played out as there are very few remaining independent hospitals in the region. While the service area remains competitive, market characteristics remain favorable in terms of population growth, and the market's size will continue to support two sizable competitors, in our opinion.

While MSHA's market share is strong in the core Washington County market, Wellmont Health System dominates in adjacent Sullivan County. Historically, Sullivan County was the only part of MSHA's primary service area where the two systems competed head to head, whereas in other parts of their service areas, MSHA and Wellmont generally did not overlap. However, they are increasingly overlapping in their service areas. MSHA traditionally had no hospitals in Virginia, while Wellmont did. However, affiliations with five Virginia hospitals during the past few years introduced MSHA into a service area that traditionally fed Wellmont's facilities. The two systems now compete head-on in Norton, Va., a two-hospital town where in 2007 MSHA acquired a 50.1% ownership in Norton Community Hospital, while Wellmont acquired the other one (Mountain View).

Recent projects update

In April 2012, MSHA completed a $66 million, 44-bed replacement facility for the more than 40-year-old Smyth County Community Hospital. Funding for the project came from the series 2011 bonds ($14 million) and operating reserves.

In January 2012, MSHA commenced a $69 million surgery tower project at Johnson City Medical Center. The project is being funded with the series 2012A bonds proceeds, operations, reserves, and a small amount of philanthropy. The number of operating room suites will remain at 16; however, the renovation will expand the space in each suite to accommodate modern equipment. In addition, the project will structurally allow MSHA to build eight additional floors for a future bed tower when additional capacity is needed (although there are currently no plans to construct the tower). The project is estimated for completion in October 2013. We understand that MSHA has no other major committed capital projects beyond 2013.

Financial Profile

MSHA again demonstrated good but less robust operating performance in fiscal 2012 compared with fiscal 2011. For the fiscal year ended June 30, net operating income was $10 million, or a 1.0% margin, on $996 million in total operating revenues, down from $21 million, or a 2.1% margin, on $960 million in total operating revenues in fiscal 2011. According to management, operating performance came in below budget for a variety of reasons, including timing issues surrounding reimbursement; lower-than-budgeted volumes, particularly in inpatient surgeries; and an increase in charity care and bad debts.

For the year, inpatient admissions were flat year over year, at 61,154 (or a 0.2% increase), compared with 61,035 in fiscal 2011, while total surgical cases were down 4% to 36,972 from 38,521. By contrast, outpatient volumes grew to 1.59 million (or 3%) in fiscal 2012 from 1.55 million in fiscal 2011 as more volumes shifted from an inpatient to outpatient setting consistent with industry trends.

Net excess income for fiscal 2012 was solid, in our view, at $37.9 million (a 3.7% margin) compared with $41.1 million (or a 4.1% margin) the previous year. MSHA's EBITDA margin was 15.5% in fiscal 2012, compared with 17.6% for fiscal 2011. MADS coverage, based on pro forma MADS of $68 million to $77 million, depending upon final pricing, is 2.1x to 2.3x.

Balance sheet

During the past several years, MSHA's aggressive pace of acquisitions positioned the system to compete effectively in its core service area. However, those investments leveraged the system's balance sheet, and for a while limited the growth in MSHA's unrestricted liquidity despite robust operating cash flow. Major acquisition and construction activity is completed, and that the current average age of plant is eight years, which we consider low. As a result, we believe that MSHA will be able to comfortably maintain more than 200 days' cash and over time build back to its goal of 250 days' cash. We understand that management has targeted to reduce debt outstanding when cash exceeds that level.

Unrestricted cash and investments totaled $534 million at fiscal year-end 2012, equal to 214 days' cash. Pro forma long-term debt to capitalization remains elevated, in our view, at 66%, although we anticipate that leverage and liquidity metrics will improve during the next several years since the system's acquisition program and major capital spending initiatives have been completed. Due to high system leverage, pro forma cash to debt is approximately 48%, which remains well below the median for the current rating. MSHA remains in compliance with all bond covenants. We understand that capital spending plans can be funded with cash flow, in addition to the series 2012 bonds.

The system's target asset allocations include maintaining 110 days' cash in high-quality and highly liquid fixed-income investments. Above 110 days' cash, the system may invest in equities up to an allocation limit of 50%. MSHA does not invest in hedge funds or in private equity.

Mountain States Health Alliance

		Fiscal Year Ended June 30,		
	Fiscal Year Ended June 30, 2012 (Unaudited)	**2011**	**2010**	**2009**
Financial performance				
Net patient revenue ($000s)	958,003	960,254	928,270	822,898
Total operating revenue ($000s)	995,562	978,018	945,392	839,944
Total operating expenses ($000s)	985,523	957,518	931,850	832,941
Operating income ($000s)	10,039	20,500	13,542	7,003
Operating margin (%)	1.01	2.10	1.43	0.83
Net nonoperating income ($000s)	27,884	20,600	24,589	14,234
Excess income ($000s)	43,038	41,100	38,131	21,237
Excess margin (%)	3.71	4.12	3.93	2.49
Operating EBIDA margin (%)	13.16	15.82	14.53	14.38
EBIDA margin (%)	15.52	17.56	16.70	15.80
Net available for debt service ($000s)	166,727	175,311	161,954	134,985
Maximum annual debt service ($000s)	77,236	77,236	77,236	77,236
Maximum annual debt service coverage (x)	2.16	2.27	2.10	1.75
Operating lease-adjusted coverage (x)	1.94	2.13	1.99	1.67
Liquidity and financial flexibility				
Unrestricted cash and investments ($000s)	533,713	597,435	578,452	515,066
Unrestricted days' cash on hand	214.0	251.4	248.3	245.9
Unrestricted cash/total long-term debt (%)	50.9	57.4	54.8	49.5
Average age of plant (years)	8.3	6.5	7.0	7.4
Capital expenditures/depreciation and amortization (%)	179.5	191.9	211.2	187.6

Mountain States Health Alliance (cont.)				
Debt and liabilities				
Total long-term debt ($000s)	1,049,098	1,040,923	1,054,842	1,040,944
Long-term debt/capitalization (%)	63.6	72.2	76.9	79.3
Debt burden (%)	7.51	7.71	7.96	9.04
Pro forma ratios				
Unrestricted days' cash on hand	223.56			
Unrestricted cash/total long-term debt (%)	47.84			
Long-term debt/capitalization (%)	66.02			

Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

Ratings Detail (As Of August 16, 2012)		
Mountain States Health Alliance, Series 2000D		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Russell Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Ser 2008B		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
Smyth Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Seies 2010 B and Series 2009B		
Long Term Rating	BBB+/Stable	Affirmed
The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee		
Mountain States Hlth Alliance, Tennessee		
ser 2007B2		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AA+/A-1	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), ser 2008A		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2000C		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2007B-1		

Ratings Detail (As Of August 16, 2012) (cont.)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
Series 2007B1-3		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
Series 2010 A&B, 2006A and 2009A		
Long Term Rating	BBB+/Stable	Affirmed
Washington Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Ser 2009 C		
Long Term Rating	BBB+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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Mountain States Health Alliance, Tennessee; Joint Criteria

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Mountain States Health Alliance, Tennessee; Joint Criteria

Credit Profile		
The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee		
Mountain States Hlth Alliance, Tennessee		
Johnson City Hlth & Educl Facs Brd (Mountain States Hlth Alliance) ser 2012B		
Long Term Rating	AAA/A-1	Rating Assigned
Unenhanced Rating	BBB+(SPUR)/Stable	Rating Assigned
Wise Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Wise Cnty Indl Dev Auth (Mountain States Hlth Alliance) ser 2012C		
Long Term Rating	AAA/A-1	Rating Assigned
Unenhanced Rating	BBB+(SPUR)/Stable	Rating Assigned

Profile:	
Expected closing date:	Sept. 18, 2012
Maturity date:	Aug. 15, 2042
Structure type:	Direct-pay letter of credit (LOC)
Obligor:	Mountain States Health Alliance
LOC provider:	Mizuho Corp. Bank Ltd. (rating dependency*)
Trustee:	Bank of New York Mellon Trust Co.

*Standard & Poor's rating on the bonds is linked to its rating on the letter of credit provider.

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA/A-1' rating to Johnson City Health & Educational Facilities Board, Tenn.'s (the issuer's) hospital revenue bonds series 2012B and Wise County Industrial Development Authority, Va.'s series 2012C, both issued on behalf of Mountain States Health Alliance (MSHA). At the same time, Standard & Poor's assigned its 'BBB+' underlying rating (SPUR) to the bonds. The 'AAA' long-term component of the rating is based on the application of joint criteria (assuming low correlation) between the irrevocable direct-pay letter of credit (LOC) and the obligor, and reflects our opinion of the likelihood that bondholders will receive interest and principal payments when due if they do not exercise the put option. The 'A-1' short-term component of our rating is based on the short-term component of the rating on Mizuho Corp. Bank Ltd. (A+/A-1), and reflects our opinion of the likelihood that bondholders will receive interest and principal payments if they exercise the put option.

The LOC fully supports all bond payment obligations when the bonds are in the weekly interest mode. Therefore, our rating applies only during this covered mode. If the bonds are converted to a non-covered rate mode, we will likely withdraw our rating (see the Structural Analysis section for more information).

The SPUR reflects our opinion of MSHA's excellent business position, strong management and governance, and continued solid operating performance, highlighted by a 10th consecutive year of operating profitability, robust EBITDA margins, and good liquidity for the rating level. Additionally, MSHA has no sizable capital needs or incremental debt plans, so it should benefit from growth in its unrestricted liquidity and a reduction in leverage over time.

For more information, please see the report published Aug. 16, 2012, on RatingsDirect on the Global Credit Portal.

Transaction Highlights

The debt is variable rate with a bondholder option to demand repayment before the bonds mature (the put or tender option). The bondholders may exercise the put option at any time during the covered mode with appropriate notice to the trustee. Those bondholders choosing to exercise the put option will receive a price equal to par plus accrued interest funded with remarketing proceeds that the trustee holds and, in the event of a failed remarketing, with the amounts available under the LOC.

Structural Analysis

When evaluating the bonds, Standard & Poor's considers various risk factors, as described below.

LOC coverage for the covered mode

The LOC covers 37 days of interest accruals at a maximum interest rate and the entire bond principal amount. We believe the LOC's coverage is sufficient to pay interest and principal while the bonds are in the covered rate mode, even assuming maximum interest rate accruals (see table).

Maximum bond rate:	12%
First interest payment date:	Oct. 1, 2012
Covered mode interest payment date:	First businees day of month
LOC interest reinstatement period:	One calendar day
Remedy for non-reinstatement:	Trustee will accelerate the bonds' maturity date and interest shall cease to accrue one calendar day after declaration.
Interest accrual for covered mode(s):	The accrual period begins on an interest payment date and continues up to, but excluding, the next interest payment date.

In addition to covered modes, the transaction documents provide that the bonds may be converted to a medium-term or fixed interest rate mode (uncovered modes). While the bonds are in the uncovered modes, a put option is not available. Furthermore, we believe the LOC does not provide enough interest coverage to account for the additional days of interest that would accrue between interest payment dates during the uncovered modes. Despite these issues, we do not believe there is any mode conversion-related risk of a put option loss or an interest shortfall because the bonds are subject to a mandatory tender at par plus accrued interest before the rate mode can be changed.

The transaction terms do not provide for the bonds to operate in multiple modes concurrently.

LOC termination

The transaction structure is such that the LOC could terminate before the bonds mature. If this happens, the bond documents call for the trustee to declare a date to repay the bonds in full before the LOC terminates. Therefore, we believe LOC termination risk is addressed. The LOC is scheduled to expire on Sept. 17, 2015, unless it is extended or earlier terminates. The trustee shall declare a mandatory tender on the second business day prior to the LOC expiration date.

LOC provider replacement

The transaction documents provide that the obligor may replace the LOC provider with appropriate notice to bondholders. The condition for replacing an existing LOC provider is that a mandatory tender must occur on the fifth business day prior to LOC replacement.

In our view, the conditions for replacing the LOC mitigate any risk that the existing bondholders would see the rating on their bonds lowered as a consequence of the LOC provider being replaced.

Additional bonds

The transaction terms do not provide for additional bond issuances under the same series.

Ratings Sensitivity

In view of the bond structure, changes to our rating on the bonds in the covered mode can result from, among other things, changes to our rating on the LOC provider or amendments to the transaction's terms. We will maintain a rating on the bonds as long as they are in the covered mode and the LOC has not expired or otherwise terminated. If either of these conditions changes, we will likely withdraw our rating on the bonds.

Other Call Provisions

During the covered mode, bonds are subject to mandatory and optional redemptions. In all cases, the redemption price will at least equal par plus accrued interest and the repayments are backed by the LOC provider.

Related Criteria And Research

- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009

STANDARD & POOR'S
RATINGS SERVICES

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The Health & Educational Facilities Board of the City of Johnson City, Tennessee
Mountain States Health Alliance; Joint Criteria; System

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The Health & Educational Facilities Board of the City of Johnson City, Tennessee
Mountain States Health Alliance; Joint Criteria; System

Credit Profile		
Mountain States Health Alliance ICR		
Long Term Rating	BBB+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on existing rated obligations from various issuers for Mountain States Health Alliance (MSHA), Tenn. At the same time, Standard & Poor's affirmed its 'BBB+' issuer credit rating (ICR) on MSHA. The outlook on all ratings is stable.

The 'BBB+' ratings reflect our view of MSHA's:

- Excellent business position, which is characterized by solid demographics, a high market share, and a broad range of services;
- Strong management and governance, which is reflected in a favorable performance record since the system's creation in 1998;
- Continued strong financial performance, highlighted by solid EBITDA margins, a 10th consecutive year of operating profitability in fiscal 2012, and solid liquidity for the rating level based on days' cash on hand; and
- More moderate capital spending needs during the next five years and lack of sizable incremental debt plans, which will likely support further growth in unrestricted liquidity and a reduction in leverage over time.

Despite MSHA's strong business position and consistent operating profitability, system leverage is elevated and remains an offsetting credit factor, in our opinion. MSHA has a debt-to-capital ratio of approximately 65% and a debt burden of 7.2% of revenue. One of management's goals is to reduce leverage, and we believe that will be key to achieving a higher rating. Also, even with typical EBITDA margins of 16% to 18%, maximum annual debt service (MADS) coverage has historically been below median 'BBB+' levels. MADS coverage as of Sept. 30 on annualized basis was 1.7x.

In 2012 MSHA issued $89 million in new-money debt (in series 2012A, 2012B, and 2012C and including unrated bank direct purchase debt). Proceeds from MSHA's series 2012 bonds were used to construct a surgical tower at Johnson City Medical Center, to reimburse $26.5 million for previous capital spending, and to refinance debt and leases outstanding to achieve interest rate and letter of credit (LOC) fee savings. Concurrent with the issuance of the rated bonds, MSHA issued $18.4 million of taxable variable-rate direct purchase debt to Bank of America that was not rated.

While the assigned SPURs on MSHA's $40 million series 2012B and 2012C obligations are 'BBB+', the long- and short-term ratings on series 2012B and 2012C bonds are 'AAA/A-1' based on the low correlation joint support of MSHA, and of Mizuho Bank as the LOC provider. Both MSHA and Mizuho are fully responsible for repayment.

As of its fiscal year ended Sept. 30, 2012 (unaudited), MSHA had $1.12 billion of long-term debt and capital lease obligations outstanding. We understand that MSHA has no plans to issue a significant amount of additional debt during the next few years as management expects to fund most of its remaining capital needs with cash flow and reserves. MSHA may convert its remaining $129 million of taxable debt outstanding to tax exempt; however, the conversion would not represent any additional debt other than costs of issuance and any required reserves. Currently, MSHA's sizable debt and accompanying high leverage remain the system's most significant credit risks, in our opinion.

In October 2012 MSHA came to a resolution with Lehman Brothers and terminated its $106 million of total return and fixed payer swaps. The settlement allowed Lehman to retain $7.4 million of the $13.8 million of collateral that had been posted by MSHA. The remaining $6.4 million was returned to MSHA.

Bank of America is the counterparty for five other active swaps -- $438 million constant maturity swaps with a mark-to-market (MTM) value of $9.8 million and $5.6 million positive annual cash flow through February 2014, and $132 million of basis swaps (converted from fixed payer to reduce the negative carry and MTM volatility) with an MTM value of negative $17.0 million, against which MSHA has no posted collateral (all figures as of November 2012).

Outlook

The stable outlook reflects our view of MSHA's business position, the benefits of the system's acquisition activity during the past several years, MSHA's favorable record of integrating acquired facilities, and the natural improvement in debt ratios that will likely occur over time. Also adding to credit stability, in our view, is MSHA's history of maintaining solid earnings although we believe the system's high debt burden remains a credit risk. While we could raise the ratings in the future, we do not expect to do so until MSHA's MADS coverage equals or exceeds 3.0x, cash to long-term debt approaches 1.0x, and debt to capitalization declines to roughly 55%. We would also expect that the organization's business position would remain strong, as demonstrated by stable to improving patient volumes and solid cash flow. Although not anticipated, should balance sheet metrics weaken, we could take a negative rating action.

Enterprise Profile

Since its formation in 1998, MSHA has tripled its asset base and more than tripled annual net patient revenues to $2.0 billion and more than $950 million, respectively. Due in large part to the system's acquisition strategy, the system's pro forma debt has approximately doubled since 2005 to more than $1.0 billion, equal to about 65% of capitalization, which we consider elevated. The system accomplished this growth through strategic hospital acquisitions in its core northeastern Tennessee and southwest Virginia service areas.

MSHA owns and operates 11 acute-care facilities and one psychiatric hospital, led by the flagship Johnson City Medical Center, a 514-licensed-bed (including 69 beds associated with Niswonger Children's Hospital) tertiary regional provider. The system's hospital facilities include 1,623 licensed acute-care beds. The system also consists of a range of outpatient facilities and ancillary services, such as a home health agency, a hospice, and other facilities such as the ownership and management of medical office buildings.

As part of its physician integration efforts, MSHA has consolidated its employed physician practices into Mountain States Medical Group, which currently employs about 400 physicians. MSHA has steadily reduced physician practice losses through increased physician leadership including regional chief medical officers, the attrition of less productive physicians, improvements in compensation when contracts are renewed, and other efficiency measures.

Management

Since the system's creation, management and governance have evolved effectively, in our view. A strong central leadership team is focused on maximizing the system's potential as a whole, as demonstrated by the consolidation efforts in its core market of Washington County. In addition, management has broadened the access to managed-care contracts for all of the facilities while centralizing the negotiations at the system level. It has also centralized other functions like billing and collections, purchasing, and laboratory services. The board improved its effectiveness by reducing its size to 13 members and has upheld its values of strong planning, education, and transparency.

Today, as it approaches the changing health care landscape MSHA's leadership remains focused on quality, ongoing physician integration, smart growth through service line and revenue cycle opportunities, cost reduction initiatives, and the development and implementation of new accountable care models, initially for the hospital's own employee population (approximately 15,000 lives), and for its Medicare patient base.

Market position

The system's core service area encompasses 13 counties in Tennessee and Virginia, and MSHA has a 53% market share. Currently, only 27% of the system's patients originate from its original home county of Washington County, Tenn. In the broader 29-county service area, MSHA has a 38% share. MSHA's main competitor, Wellmont, holds about a 30% share. There is no significant third player.

We believe that the spate of acquisitions by both MSHA and Wellmont have largely played out as there are very few remaining independent hospitals in the region. While the service area remains competitive, market characteristics remain favorable in terms of population growth, and the market's size will continue to support two sizable competitors, in our opinion.

While MSHA's market share is strong in the core Washington County market, Wellmont Health System dominates in adjacent Sullivan County. Historically, Sullivan County was the only part of MSHA's primary service area where the two systems competed head to head, whereas in other parts of their service areas, MSHA and Wellmont generally did not overlap. However, they are increasingly overlapping in their service areas. MSHA traditionally had no hospitals in Virginia, while Wellmont did. However, affiliations with five Virginia hospitals during the past few years introduced MSHA into a service area that traditionally fed Wellmont's facilities. The two systems now compete head-on in Norton, Va., a two-hospital town where in 2007 MSHA acquired a 50.1% ownership in Norton Community Hospital, while Wellmont acquired the other one (Mountain View).

Recent projects update

In April 2012, MSHA completed a $66 million, 44-bed replacement facility for the more than 40-year-old Smyth County Community Hospital. Funding for the project came from the series 2011 bonds ($14 million) and operating reserves.

In January 2012, MSHA commenced a $69 million surgery tower project at Johnson City Medical Center. The project is being funded with the series 2012A bonds proceeds, operations, reserves, and a small amount of philanthropy. The number of operating room suites will remain at 16; however, the renovation will expand the space in each suite to accommodate modern equipment. In addition, the project will structurally allow MSHA to build eight additional floors for a future bed tower when additional capacity is needed (although there are currently no plans to construct the tower). The project is estimated for completion in October 2013. We understand that MSHA has no other major committed capital projects beyond 2013.

Financial Profile

MSHA's operating performance was good in fiscal 2012, in our view, but less robust than in fiscal 2011. For the fiscal year ended June 30, net operating income was $8.3 million, or a 0.9% margin, on $992 million in total operating revenues, down from $21 million, or a 2.1% margin, on $971 million in total operating revenues in fiscal 2011. According to management, operating performance came in below budget for a variety of reasons, including timing issues surrounding reimbursement; lower-than-budgeted volumes, particularly in inpatient surgeries; and an increase in charity care and bad debts.

For the year, inpatient admissions were flat year over year, at 61,154 (or a 0.2% increase), compared with 61,035 in fiscal 2011, while total surgical cases declined by 4% to 36,972 from 38,521. By contrast, outpatient volumes grew to 1.59 million (or 3%) in fiscal 2012 from 1.55 million in fiscal 2011 as more volumes shifted from an inpatient to outpatient setting consistent with industry trends.

Net excess income for fiscal 2012 was solid, in our view, at $39.7 million (a 3.9% margin), compared with $41.1 million (or a 4.2% margin) the previous year. MSHA's EBITDA margin was 13.1% in fiscal 2012, compared with 15.7% for fiscal 2011. Coverage, based on new MADS of $71 million, was 2.3x for fiscal 2012.

Balance sheet

During the past several years, MSHA's aggressive pace of acquisitions positioned the system to compete effectively in its core service area. However, those investments leveraged the system's balance sheet, and for a while limited the growth in MSHA's unrestricted liquidity despite robust operating cash flow.

Major acquisition and construction activity is completed, and the current average age of plant is eight years, which we consider low. As a result, we believe that MSHA will be able to comfortably maintain more than 200 days' cash and over time build back to its goal of 250 days' cash. We understand that management has targeted to reduce debt outstanding when cash exceeds that level.

Unrestricted cash and investments totaled $578 million at Sept. 30, 2012, equal to 231 days' cash. Long-term debt to capitalization remains elevated, in our view, at 65%, although we anticipate that leverage and liquidity metrics will improve during the next several years since the system's acquisition program and major capital spending initiatives have been completed. Due to high system leverage, cash to debt is approximately 51%, which remains well below the median for the current rating. MSHA remains in compliance with all bond covenants.

The system's target asset allocations include maintaining 110 days' cash in high-quality and highly liquid fixed-income investments. Above 110 days' cash, the system may invest in equities up to an allocation limit of 50%. MSHA does not invest in hedge funds or in private equity.

Mountain States Health Alliance

		Fiscal Year Ended June 30,		
	Three-Month Interim Ended Sept. 30, 2012	**2012**	**2011**	**2010**
Financial performance				
Net patient revenue ($000s)	227,664	952,133	960,254	928,270
Total operating revenue ($000s)	238,587	991,540	978,018	945,392
Total operating expenses ($000s)	245,727	983,215	957,173	931,850
Operating income ($000s)	(7,140)	8,325	20,845	13,542
Operating margin (%)	(2.99)	0.84	2.13	1.43
Net nonoperating income ($000s)	7,721	31,369	20,600	24,589
Excess income ($000s)	581	39,694	41,445	38,131
Excess margin (%)	0.24	3.88	4.15	3.93
Operating EBIDA margin (%)	9.65	13.06	15.85	14.53
EBIDA margin (%)	N.A.	15.73	17.59	16.70
Net available for debt service ($000s)	30,751	160,902	175,656	161,954
Maximum annual debt service ($000s)	71,229	71,229	77,236	77,236
Maximum annual debt service coverage (x)	1.73	2.26	2.27	2.10
Operating lease-adjusted coverage (x)	1.98	2.12	2.14	1.99
Liquidity and financial flexibility				
Unrestricted cash and investments ($000s)	572,688	518,624	597,435	578,452
Unrestricted days' cash on hand	230.8	208.5	251.5	248.3
Unrestricted cash/total long-term debt (%)	51.3	49.5	57.4	54.8
Average age of plant (years)	8.3	8.3	6.5	7.0
Capital expenditures/depreciation and amortization (%)	N.A.	176.5	191.9	211.2
Debt and liabilities				
Total long-term debt ($000s)	1,117,046	1,048,098	1,040,923	1,054,842
Long-term debt/capitalization (%)	64.5	63.6	64.5	76.9
Contingent liabilities ($000s)	499,605	459,605	386,418	N.A.
Contingent liabilities/total long-term debt (%)	44.7	43.9	37.1	N.A.
Debt burden (%)	7.23	6.96	7.71	7.96

N.A.: Not available.

Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

Ratings Detail (As Of January 16, 2013)		
Mountain States Health Alliance, Series 2000D		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Series 2011E		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
Russell Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Ser 2008B		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed
Smyth Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Seies 2010 B and Series 2009B		
Long Term Rating	BBB+/Stable	Affirmed
Series 2011C		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed
Series 2011D		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee		
Mountain States Hlth Alliance, Tennessee		
ser 2007B2		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AA+/A-1	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), ser 2008A		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2000C		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2007B-1		

Ratings Detail (As Of January 16, 2013) (cont.)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed
Series 2007B1-3		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
Series 2010 A&B, 2006A and 2009A		
Long Term Rating	BBB+/Stable	Affirmed
Series 2011A		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed
Series 2011B		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AA+/A-1	Affirmed
Series 2012A		
Long Term Rating	BBB+/Stable	Affirmed
Series 2012B		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
Washington Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Ser 2009 C		
Long Term Rating	BBB+/Stable	Affirmed
Wise Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Series 2012C		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed

Many issues are enhanced by bond insurance.

STANDARD & POOR'S RATINGS SERVICES

RatingsDirect®

The Health and Educational Facilities Board of the City of Johnson City, Tennessee
Mountain States Health Alliance; Letter of Credit

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The Health and Educational Facilities Board of the City of Johnson City, Tennessee
Mountain States Health Alliance; Letter of Credit

Credit Profile		
US$99.68 mil taxable hosp rfdg rev bnds (Mountain States Hlth Alliance) ser 2013B		
Long Term Rating	AA-/A-1+	Affirmed
US$16.235 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2013A		
Long Term Rating	AA-/A-1+	Affirmed

Rationale

Profile	
Expected closing date:	July 30, 2013
Maturity date:	Aug. 15, 2043
Structure type:	Direct-pay letter of credit
Obligor:	Mountain States Health Alliance
LOC provider:	U.S. Bank National Association
Trustee:	The Bank of New York Mellon Trust Company N.A. (AA-/Stable/A-1+)

Standard & Poor's Ratings Services assigned its 'AA-/A-1+' rating to The Health and Educational Facilities Board of the City of Johnson City, Tenn.'s series 2013A hospital revenue bonds and series 2013B taxable hospital revenue refunding bonds, both issued on behalf of Mountain States Health Alliance.

The 'AA-' long-term component of the rating is based on the long-term issuer credit rating (ICR) of U.S. Bank National Association (AA-/Stable/A-1+), which has entered into an irrevocable letter of credit (LOC) with the trustee, and reflects our opinion of the likelihood that bondholders will receive principal and interest payments when due if they do not exercise the put option. The 'A-1+' short-term component of the rating is based on the LOC provider's short-term ICR and reflects our opinion of the likelihood that bondholders will receive principal and interest payments if they do exercise the put option.

The initial interest rate mode for the bonds, which is fully supported by the LOC, is the weekly mode. The bonds can also be converted to term and fixed rate modes, which are not supported by the LOC. However, pursuant to the trust indenture, any rate mode conversion must be preceded by a mandatory tender (See the Structural Analysis section below for more information).

Transaction Highlights

The debt is variable rate with a bondholder option to demand repayment before the bonds mature (the put or tender option). The bondholders may exercise the put option at any time during the covered mode with appropriate notice to the trustee. Those bondholders choosing to exercise the put option will receive a price equal to par plus accrued interest funded with remarketing proceeds or amounts available under the LOC.

Structural Analysis

When evaluating the bonds, Standard & Poor's considers various risk factors, as described below.

LOC coverage for the covered mode

The LOC covers the entire bond principal amount, plus interest accruals equal to 37 days. We believe this LOC coverage is sufficient to pay principal, interest, and, in the event of a tender, the purchase price while the bonds are in the weekly mode (the covered mode), even assuming maximum interest rate accruals (see table below).

Maximum bond rate:	12%
Next interest payment date:	Aug. 1, 2013
Covered mode interest payment date:	1st business day of each month
LOC interest reinstatement period:	Automatic reinstatement by close of business on an interest payment date unless prior notice of non-reinstatement is provided
Remedy for nonreinstatement:	Acceleration
Interest accrual for covered mode:	Accrual from the preceding interest payment date to, but not including, the next interest payment date

Interest rate mode changes

The current (and covered) mode is the weekly mode; the transaction terms do not provide for the bonds to operate in multiple modes concurrently. In addition to the covered mode, the transaction documents provide that the bonds may be converted to term and fixed rate modes. While we offer an opinion of the sufficiency of interest coverage only as to the covered mode, it should be noted that the bonds are subject to a mandatory tender at par plus accrued interest before the rate mode can be changed.

LOC termination and expiration

Termination risk is addressed, in our opinion, because by its terms, the LOC cannot terminate prior to expiration while the bonds are outstanding in the covered mode unless the LOC provider is replaced or, following certain events of default, the LOC provider has directed the trustee to drawn on the LOC to cover an acceleration.

LOC provider replacement

The transaction documents generally provide that the obligor may replace the LOC provider with appropriate notice to bondholders. However, a mandatory tender must occur prior to the date proposed for the replacement of the LOC provider. In our view, this and other requirements related to LOC provider replacement sufficiently mitigate any risk that the existing bondholders would see the rating on the bonds lowered as a consequence of the LOC provider being replaced.

Additional bonds

The transaction terms do not provide for additional bond issuances.

Ratings Sensitivity

In view of the bond structure, changes to our rating on the bonds in the covered mode can result from, among other things, changes to our rating on the LOC provider or amendments to the transaction's terms. We will maintain a rating on the bonds as long as they are in the covered mode and the LOC has not expired or otherwise terminated. If either of these conditions changes, we will likely withdraw our rating on the bonds.

Call And Put Provisions

The bonds are subject to redemption and tender, both mandatory and optional, under various scenarios. In all cases in the covered mode, the redemption or tender price will at least equal par plus accrued interest and will be fully supported by the LOC. Premiums for tenders or redemptions are not currently supported by the bond documents.

Related Criteria And Research

Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

STANDARD
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RATINGS SERVICES

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Summary:

Johnson City Health And Education Facilities Board, Tennessee
Mountain States Health Alliance; Joint Criteria

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Summary:

Johnson City Health And Education Facilities Board, Tennessee
Mountain States Health Alliance; Joint Criteria

Credit Profile		
Russell Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Russell Cnty Indl Dev Auth (Mountain States Health Alliance) VRDO ser 2008B		
Long Term Rating	AAA/A-1+	Current
Unenhanced Rating	BBB+(SPUR)/Stable	Current
The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee		
Mountain States Hlth Alliance, Tennessee		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) VRDO ser 2007 B1 B2 B3		
Long Term Rating	AAA/A-1+	Current
Unenhanced Rating	BBB+(SPUR)/Stable	Current
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) VRDO ser 2007 B1 B2 B3		
Long Term Rating	AA+/A-1	Current
Unenhanced Rating	BBB+(SPUR)/Stable	Current
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) VRDO ser 2008A		
Long Term Rating	AAA/A-1+	Current
Unenhanced Rating	BBB+(SPUR)/Stable	Current

Rationale

Standard & Poor's Ratings Services confirmed its 'AAA/A-1+' and 'AA+/A-1' ratings on Johnson City Health and Education Facilities Board, Tenn.'s (Mountain States Health Alliance) series 2007-B1, 2007-B2, 2007-B3, and 2008A hospital revenue bonds. At the same time, Standard & Poor's confirmed its 'AAA/A-1+' rating on Russell County Industrial Development Authority, Va.'s (Mountain States Health Alliance) series 2008B hospital revenue bonds. The confirmations reflects extensions of the letters of credit provided by U.S. Bank National Association (for series 2008A and 2008B) and PNC Bank N.A. (for 2007B-1 and 2007B-2) to July 30, 2018, for 2007-B1 and Oct. 19, 2014, for 2007B-2, 2008A, and 2008B. The long-term components of the ratings are based jointly (assuming low correlation) on the ratings on the issues' respective obligors and letter of credit (LOC) providers. The short-term components of the ratings are based solely on the ratings on the respective LOC providers.

Related Criteria And Research

- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007

- Criteria: Joint Support Criteria Update, April 22, 2009

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Johnson City Health and Educational Facilities Board, Tennessee
Mountain States Health Alliance; Joint Criteria

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Summary:

Johnson City Health and Educational Facilities Board, Tennessee Mountain States Health Alliance; Joint Criteria

Credit Profile		
The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee		
Mountain States Hlth Alliance, Tennessee		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) VRDO ser 2011A		
Long Term Rating	AAA/A-1+	Current
Unenhanced Rating	BBB+(SPUR)/Stable	Current
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) VRDO ser 2011B		
Long Term Rating	AA+/A-1	Current
Unenhanced Rating	BBB+(SPUR)/Stable	Current

Rationale

Standard & Poor's Ratings Services confirmed its 'AAA/A-1+' and 'AA+/A-1' ratings on Johnson City Health and Educational Facilities Board, Tenn.'s (Mountain States Health Alliance) series 2011A and 2011B variable-rate demand revenue bonds, respectively, due to the issues' bank facilities being extended to July 30, 2016, for series 2011B and July 30, 2018, for series 2011A. The long-term components of the ratings are based jointly (assuming low correlation) on the ratings on the obligor, Mountain States Health Alliance (BBB+), and the letter of credit providers: PNC Bank N.A. (A/A-1) for series 2011B, and U.S. Bank National Assn. (AA-/A-1+) for series 2011A. The short-term components of the ratings are based solely on the ratings on PNC Bank N.A. (A-1) and U.S. Bank National Assn. (A-1+) for series 2011B and 2011A, respectively.

Related Criteria And Research

Related Criteria

- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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The Health & Educational Facilities Board of the City of Johnson City, Tennessee
Mountain States Health Alliance; Joint Criteria; System

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The Health & Educational Facilities Board of the City of Johnson City, Tennessee
Mountain States Health Alliance; Joint Criteria; System

Credit Profile		
Mountain States Health Alliance ICR		
Long Term Rating	BBB+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on existing rated obligations from various issuers for Mountain States Health Alliance (MSHA), Tenn. At the same time, Standard & Poor's affirmed its 'BBB+' issuer credit rating (ICR) on MSHA. The outlook on all ratings is stable.

The 'BBB+' ratings reflect our view of MSHA's strong business position and solid level of unrestricted reserves and corresponding days' cash on hand. These factors are partially offset by the system's light maximum annual debt service (MADS) coverage for the rating level, and high leverage remaining from the aggressive acquisition activity that ended a few years ago.

More specifically, the 'BBB+' ratings reflect our view of MSHA's:

- Excellent business position, which is characterized by solid demographics, a high market share relative to its competition, and a broad range of services;
- Strong management and governance, which is reflected in the system's favorable performance record since its creation in 1998, and our expectation that the system's solid leadership will continue under Alan Levine, who joined MSHA as CEO in January;
- Continued strong financial performance, highlighted by solid EBITDA margins, and an 11th consecutive year of operating profitability in fiscal 2013 -- although results softened compared to previous years -- and solid liquidity for the rating level based on days' cash on hand; and
- Declining capital spending, which will likely support further growth in unrestricted liquidity and a reduction in leverage over time.

Despite MSHA's strong business position and consistent operating profitability, system leverage is elevated and remains an offsetting credit factor, in our opinion. MSHA has a debt-to-capital ratio of approximately 61% (down from 64% at fiscal year-end 2012) and a debt burden of roughly 7% of revenue. One of management's goals is to reduce leverage; we believe that will be key to achieving a higher rating. Also, even with typical EBITDA margins of 15% to 18%, MADS coverage has historically been below median 'BBB+' levels. MADS coverage as of Sept. 30 on an annualized basis was 2.0x.

The 'BBB+' ratings also incorporate our view of MSHA's group credit profile and the obligated group's core status.

Accordingly, the bonds are rated at the same level as the group credit profile. Our determination of the group status of MSHA's obligated group is "core" as the obligated group contains the majority of system assets and accounts for most of its revenues and income.

Bonds that are not otherwise secured by letters of credit (LOCs) are secured by MSHA's gross revenues, or are jointly secured by gross revenues and an irrevocable direct-pay LOC. Various debt issues supported by irrevocable direct pay LOCs for which there is no SPUR (including series 2013A and 2013B) are based solely on the long-term and short-term ratings of the LOC provider. While we are not affirming those ratings herein, we have factored the debt amounts into our analysis of MSHA's overall leverage and debt service capacity.

We are affirming the ratings on several series of bonds, including series 2007B1, 2007B2, 2007B3, 2008A, 2011A, and 2011B, whose ratings are based on the low correlation joint support of both MSHA and the LOC provider. For those bonds, MSHA and the LOC provider are each individually fully responsible for their repayment.

As of its interim period ended Sept. 30, 2013 (unaudited), MSHA had $1.1 billion of long-term debt and capital lease obligations outstanding. Outstanding debt is split between 58% fixed- and 42% variable-rate obligations. We understand that MSHA has no plans to issue a significant amount of additional debt during the next few years, as management expects to fund its modest capital needs with cash flow and reserves. MSHA may continue to convert its remaining $117 million of taxable debt to tax-exempt obligations; however, conversion would not result in any additional debt other than for costs of issuance and any required reserves. In our opinion, MSHA's sizable debt and accompanying high leverage remain the system's most significant credit risks.

In addition to its outstanding debt obligations, MSHA has $570 million of active swaps with Bank of America as the counterparty. The swaps include $438 million of constant maturity swaps with a mark-to-market (MTM) value of positive $5.7 million. These swaps generate $4.9 million of positive annual cash flow. MSHA also has $132 million of basis swaps with a MTM value of negative $20 million, against which MSHA has no posted collateral. All amounts are as of November 2013.

Outlook

The stable outlook reflects our view of MSHA's business position supported by the system's past acquisition activity, MSHA's favorable record of integrating acquired facilities, and the natural improvement in debt ratios that is occurring, and that we expect to continue over time. Also adding to credit stability is MSHA's history of maintaining solid earnings, although we believe the system's high debt burden remains a credit risk. While we may raise the ratings in the future, we do not expect to do so until MSHA's MADS coverage equals or exceeds 3.0x, cash to long-term debt reaches 70% to 75%, and debt to capitalization declines to roughly 55%. We will also expect the system's business position to remain strong --demonstrated by stable to improving patient volumes and by sustained robust cash flow. Although not anticipated, if balance sheet metrics weaken, coverage declines to less than 1.7x, or operating margins decline and be sustained at or below 1.0%, we could take a negative rating action.

Enterprise Profile

Since its formation in 1998, MSHA has tripled its asset base and more than tripled annual net patient revenues to just over $2 billion and more than $1 billion, respectively. Today, MSHA owns and operates 14 acute-care facilities led by the flagship Johnson City Medical Center, a 514-licensed-bed tertiary regional provider.

The system's hospital facilities include 1,717 licensed acute-care beds, including 94 beds acquired in the October 2013 acquisition of Unicoi County Memorial Hospital. MSHA also consists of a range of outpatient facilities and ancillary services, such as a home health agency and a hospice, and other activities such as the ownership and management of medical office buildings.

MSHA acquired the Unicoi hospital for $2.5 million plus $4 million of outstanding Unicoi debt, which was retired at closing. The agreement included a commitment from MSHA to build a 20-bed replacement hospital by 2018. MSHA expects the acquisition will be accretive within 15 months as Unicoi transitions to MSHA's rates, which are current at about 50% of MSHA system levels.

As part of its physician integration efforts, MSHA has consolidated its employed physician practices into Mountain States Medical Group, which employs about 400 physicians. MSHA has steadily reduced physician practice losses through increased physician leadership, including regional chief medical officers, the attrition of less productive physicians, improvements in compensation when contracts are renewed, and other efficiency measures.

Management

Effective Jan. 1, Alan Levine became President and CEO of MSHA, replacing the retiring Dennis Vonderfect. Mr. Levine joined MSHA from Health Management Associates where he served as Group President. Before that he served as Secretary of the Louisiana Department of Health and Hospitals, and Senior Health Policy advisor to Governor Jindal.

Since the system's creation, MSHA's management and governance have evolved effectively, in our view. A strong central leadership team is focused on maximizing the system's potential as a whole and broadening access to managed-care contracts for all of the facilities while centralizing the negotiations at the system level. It has also centralized other functions like billing and collections, purchasing, and laboratory services. The 13-member board has upheld its values of strong planning, education, and transparency.

Today, as it approaches the changing health care landscape, MSHA's leadership, in our view, remains focused on quality, ongoing physician integration, smart growth through service line and revenue cycle opportunities, cost reduction initiatives, and the development and implementation of new accountable care models, for the system's own employed population, and for its Medicare patient base.

Market position

The system's core service area encompasses 13 counties in Tennessee and Virginia where MSHA has about a 53% market share. Currently, fewer than 30% of the system's patients originate from its original home county of Washington County, Tenn. In the broader 29-county service area, MSHA has a 38% share, while Wellmont Health System, MSHA's main competitor, holds about a 30% share. There is no significant third player. While MSHA's market share is strong in the core Washington County market, Wellmont Health System dominates in adjacent Sullivan County. But, over the past several years the two health systems service areas have increasingly overlapped. Although the service area remains competitive, market characteristics remain favorable in terms of population growth, and the market's size will continue to support two sizable competitors, in our opinion.

Recent projects update

In October 2013 MSHA completed its $69 million surgery tower project at Johnson City Medical Center. The project was funded with series 2012A bond proceeds, and through operations, reserves, and a small amount of philanthropy. The project left the number of operating room suites at 16, but expanded the space in each suite to accommodate modern equipment. MSHA also renovated and expanded the radiation oncology suite. The project structurally allows MSHA to add eight floors for a future bed tower if the capacity is needed, although there are currently no plans to build those additional floors.

Other than a $20 million replacement hospital project for the recently acquired Unicoi County Memorial Hospital, we understand that MSHA has no other major committed capital projects beyond 2014.

Financial Profile

Change in accounting for bad debt

In accordance with the publication of our article, "New Bad Debt Accounting Rules Will Alter Some U.S. Not-for-Profit Health Care Ratios But Won't Affect Ratings," published Jan. 19, 2012 on RatingsDirect, we recorded MSHA's fiscal 2012 audit and all subsequent financial statements incorporating the adoption of Financial Accounting Standards Board 2011-07, but not in prior periods. The new accounting treatment means that MSHA's fiscal 2012 and subsequent financial statistics are not directly comparable to the results for fiscal 2011 and prior years. For an explanation of how each financial measure is affected by the change in accounting for bad debt, including the direction and size of the change, please see the above article.

In our view, MSHA's operating performance remained good in fiscal 2013 but it was less robust than it had been in fiscal 2012, primarily due to lower inpatient volumes and the ongoing shift to observations, and to more patient care occurring in an outpatient setting. Reimbursement from both governmental and commercial sources remains under pressure and MSHA, like almost all other acute care providers, continues to incur sizable costs to transform its processes to succeed in the changing health care landscape and under the Affordable Care Act.

For the fiscal year ended June 30, net operating income was $11.5 million (as per Standard & Poor's methodology), or a 1.1% margin, on $1.01 billion in total operating revenues. Results were down from $19.6 million, or a 2% margin, on $1.00 billion in total operating revenues in fiscal 2012. For the year, inpatient admissions were lower year over year, at 58,103 (or a 5.0% decrease) compared with 61,154 in fiscal 2012 and 61,035 in fiscal 2011. Inpatient volume declines in fiscal 2013 reflect marketwide conditions, as MSHA's system market share remains stable to slightly improved. Management is expecting a same-store reduction in inpatient volumes of about 3% in fiscal 2014 although total admissions will likely be down only about 2% (at 57,809) due to approximately 800 admissions from Unicoi Memorial, which joined MSHA in October (the 800 admissions from Unicoi represent about eight months of inpatient volume from the hospital). Observation volumes continue to grow, increasing by 6% in 2013 to 23,554. Management projects another 3% growth in observations for fiscal 2014. Management sees an opportunity to reduce the number of observations as a percentage of total admissions through appropriate physician documentation and is working toward that goal. Every 1% shift in observations has a financial impact of approximately $1.4 million to the system. Outpatient volumes continued their strong growth to 1.67 million (a 4.7% increase) in fiscal 2013 from 1.59 million in fiscal 2012 as more volumes shifted from an inpatient to outpatient setting consistent with industry trends.

Net excess income for fiscal 2013 was solid, in our view although less robust, at $35.1 million (a 3.4% margin), compared with $39.7 million (a 3.9% margin) the previous year. MSHA's EBIDA margin was 15.4% in fiscal 2013, compared with 15.7% for fiscal 2012. Coverage, based on MADS of $71 million, was 2.3x for fiscal 2013.

Interim

On an interim basis for the three months ended Sept. 30, 2013, MSHA had an operating loss of $3.6 million (as per Standard & Poor's calculations) and excess income of $4.2 million (1.7% margin), generating cash flow of $35 million, producing annualized MADS coverage of just under 2.0x. Results year to date reflected continued weak inpatient volume trends.

Five-year financial plan

MSHA's five-year forecast assumes modest 0.5% to 2.7% decreases in inpatient admissions out to 2018. The forecast further assumes no Medicaid expansion in Tennessee or Virginia, and factors in additional declines in Medicare reimbursement. However, supported by reduced length of stay and other operating and cost containment initiatives, management expects to sustain $150 million to $160 million of annual EBIDA, which is adequate to comfortably support debt service and further reduce debt, once cash exceeds 250 days.

Balance sheet

MSHA's aggressive acquisition spending ended a few years ago, and while we believe the spending put the system in a better competitive position, it nevertheless resulted in very high leverage, which remains elevated and an impediment to a higher rating. As of Sept. 30, 2013, MSHA's long-term debt to capitalization was 61%, which, due to robust operating cash flow, has continued to improve after being having been as high as 79% in fiscal 2009.

Unrestricted cash and investments totaled $606 million at Sept. 30, 2013, equal to 245 days' cash, which we view as robust for the rating level; due to high system leverage, however, cash to debt is approximately 56%, which remains well below the median for the current rating. MSHA remains in compliance with all bond covenants.

MSHA's current average age of plant is just under nine years, which we consider low, and the system has only modest capital plans, in our opinion, during the next several years. As a result, we believe that MSHA will be able to comfortably maintain more than 200 days' cash, and over time build back to its goal of 250 days' cash. We understand that management has targeted to reduce debt outstanding when cash exceeds 250 days.

Management plans to spend about $91 million on capital expenditures in fiscal 2014, primarily on small projects not exceeding $20 million on an individual basis. Spending for fiscal 2014 represents about 114% of fiscal 2013 depreciation. Between fiscal 2015 and fiscal 2018 capital spending is expected to be moderate, at less than 100% of depreciation. Spending in fiscal years 2015 and 2016 is expected to include the construction of the new 20-bed replacement hospital for Unicoi County, as part of MSHA's hospital affiliation agreement that was effective in

November 2013. Management has no future financing plans as Unicoi and other projects will be funded from operations.

Mountain States Health Alliance

		Fiscal Year Ended June 30,		
	Three-Month Interim Ended Sept. 30, 2013	**2013**	**2012**	**2011**
Financial performance				
Net patient revenue ($000s)	227,934	932,748	952,133	960,254
Total operating revenue ($000s)	242,424	1,011,206	1,002,776	978,018
Total operating expenses ($000s)	246,020	999,737	983,215	957,173
Operating income ($000s)	(3,596)	11,469	19,561	20,845
Operating margin (%)	(1.48)	1.13	1.95	2.13
Net nonoperating income ($000s)	7,822	23,616	20,133	20,600
Excess income ($000s)	4,226	35,085	39,694	41,445
Excess margin (%)	1.69	3.39	3.88	4.15
Operating EBIDA margin (%)	11.23	13.44	14.04	15.85
EBIDA margin (%)	14.01	15.41	15.73	17.59
Net available for debt service ($000s)	35,053	159,489	160,902	175,656
Maximum annual debt service ($000s)	70,909	70,909	70,909	70,909
Maximum annual debt service coverage (x)	1.98	2.25	2.27	2.48
Operating lease-adjusted coverage (x)	2.2	2.11	2.13	2.3
Liquidity and financial flexibility				
Unrestricted cash and investments ($000s)	606,340	588,478	531,151	597,435
Unrestricted days' cash on hand	244.6	233.8	213.5	251.5
Unrestricted cash/total long-term debt (%)	56.1	54	50.7	57.4
Average age of plant (years)	9.1	8.7	8.3	6.5
Capital expenditures/depreciation and amortization (%)	N.A.	130.2	176.5	191.9
Debt and liabilities				
Total long-term debt ($000s)	1,081,596	1,090,348	1,048,098	1,040,923
Long-term debt/capitalization (%)	61.4	62.3	63.6	64.5
Contingent liabilities ($000s)	N.A.	478,189	459,605	386,418
Contingent liabilities/total long-term debt (%)	N.A.	43.9	43.9	37.1
Debt burden (%)	7.08	6.85	6.93	7.08

N.A.: Not available.

Related Criteria And Research

Related Criteria

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007

- Criteria: Joint Support Criteria Update, April 22, 2009

Related Research

- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011
- The Outlook For U.S. Not-For-Profit Health Care Providers Is Negative From Increasing Pressures, Dec. 10, 2013U.S. Not-For-Profit Health Care System Ratios: Metrics Remain Steady As Providers Navigate An Evolving Environment, Aug. 8, 2013
- Health Care Providers And Insurers Pursue Value Initiatives Despite Reform Uncertainties, May 9, 2013
- U.S. Not-For-Profit Health Care Providers Hone Their Strategies To Manage Transition Risk, May 16, 2012
- U.S. Not-For-Profit Health Care Providers Hone Their Strategies For Reform, May 16, 2011

Ratings Detail (As Of January 22, 2014)		
Mountain States Health Alliance, Series 2000D		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Series 2011E		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
Russell Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Ser 2008B		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed
Smyth Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Seies 2010 B and Series 2009B		
Long Term Rating	BBB+/Stable	Affirmed
The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee		
Mountain States Hlth Alliance, Tennessee		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2000C		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2007B-1		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed
Series 2010 A&B, 2006A and 2009A		
Long Term Rating	BBB+/Stable	Affirmed
Series 2011A		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed
Series 2011B		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed

Ratings Detail (As Of January 22, 2014) (cont.)		
Long Term Rating	AA+/A-1	Affirmed
Series 2012A		
Long Term Rating	BBB+/Stable	Affirmed
Series 2012B		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
Washington Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Ser 2009 C		
Long Term Rating	BBB+/Stable	Affirmed
Wise Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Series 2012C		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed

Many issues are enhanced by bond insurance.

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Mountain States Health Alliance, Tennessee; Joint Criteria; System

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Mountain States Health Alliance, Tennessee; Joint Criteria; System

Credit Profile		
Mountain States Health Alliance ICR		
Long Term Rating	BBB+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on existing rated obligations from various issuers for Mountain States Health Alliance (MSHA), Tenn. At the same time, Standard & Poor's affirmed its 'BBB+' issuer credit rating (ICR) on MSHA. The outlook on all ratings is stable.

The 'BBB+' ratings reflect our view of MSHA's strong business position and solid level of unrestricted reserves and corresponding days' cash on hand. These factors are partly offset by the system's just adequate maximum annual debt service (MADS) coverage for the rating level, and improving, but still high, leverage remaining from the past capital spending and acquisition activity. While our ratings and outlook remain unchanged for now, we believe that MSHA's overall operational and financial trends are positive and, if sustained, will support favorable rating action over the near to intermediate term.

More specifically, the 'BBB+' ratings reflect our view of MSHA's:

- Excellent business position, which is characterized by solid demographics, a robust market share relative to its competition, and a broad range of services;
- Strong management and governance, which is reflected in the system's favorable performance record since its creation in 1998;
- Continued strong financial performance, highlighted by solid EBITDA margins, a 12th consecutive year of operating profitability in fiscal 2014 (although results continued to soften compared to previous years), and solid liquidity for the rating level based on days' cash on hand; and
- Reduced capital spending, which will likely support further growth in unrestricted liquidity and a reduction in leverage over time.

Despite MSHA's strong business position and consistent operating profitability, system leverage is elevated and remains an offsetting credit factor, in our opinion. MSHA has a debt-to-capital ratio of approximately 59% and a debt burden of roughly 7% of revenue. One of management's goals is to reduce leverage, and we believe that is key to achieving a higher rating. Also, even with EBITDA margins of 14% to 16%, MADS coverage has historically been below median 'BBB+' levels. MADS coverage was 2.2x at fiscal year end and about 1.4x as of Sept. 30 on an annualized basis, lower than 2.5x for the 'BBB+' rating median.

The 'BBB+' ratings also incorporate our view of MSHA's group credit profile and the obligated group's core status. Accordingly, the bonds are rated at the same level as the group credit profile. Our determination of the group status of MSHA's obligated group is "core," as the obligated group contains the majority of system assets and accounts for most of its revenues and income.

Bonds that are not otherwise secured by letters of credit (LOCs) are secured by MSHA's gross revenues or are jointly secured by gross revenues and an irrevocable direct-pay LOC. Various debt issues supported by irrevocable direct pay LOCs for which there is no SPUR (including series 2013A and 2013B) are based solely on the long-term and short-term ratings of the LOC provider. While we are not affirming those ratings herein, we have factored the debt amounts into our analysis of MSHA's overall leverage and debt service capacity.

We are affirming the ratings on bonds, including series 2007B1, 2011A, and 2011B, whose ratings are based on the low correlation joint support of both MSHA and the LOC provider. For those bonds, MSHA and the LOC provider are each individually fully responsible for their repayment.

As of its interim period ended Sept. 30, 2014 (unaudited), MSHA had $590 million of long-term debt and capital lease obligations outstanding. Outstanding debt is split between approximately 58% fixed- and 42% variable-rate obligations. We understand that MSHA has no plans to issue a significant amount of additional debt during the next few years, as management expects to fund its modest capital needs with cash flow and reserves. Also, management plans for an additional $30.5 million of debt retirement in fiscal 2015, which we view favorably since, as noted, MSHA's sizable debt and accompanying high leverage remain the system's most significant credit risk, in our opinion.

In addition to its outstanding debt obligations, MSHA has $590 million swaps with Bank of America as the counterparty. The swaps include $438 million of constant maturity swaps with a mark-to-market (MTM) value of positive $3.5 million, a $132 million basis swap with a MTM of negative $15.7 million, and a $20 million total return swap with a positive MTM value of $320,000. Combined, these swaps generate $5.4 million of positive annual cash flow. All amounts are as of November 2014.

Outlook

The stable outlook reflects our view of MSHA's sound business position, favorable record of integrating acquired facilities, and improvement in debt ratios, which we expect will continue given modest capital spending needs, although we continue to believe the system's high debt burden remains a rating constraint. While we view MSHA's trends favorably, and, if sustained, we may raise the ratings in the future, we would expect to do so once MSHA's MADS coverage and leverage metrics reach levels more consistent with 'A' category medians. We will also expect the system's business position to remain strong -- demonstrated by stable to improving patient volumes and by sustained robust cash flow. Although not anticipated, if balance sheet metrics weaken, coverage declines, or operating margins decline and are sustained at or below 1.0%, we could consider a negative rating action.

Enterprise Profile

Since its formation in 1998, MSHA has tripled its asset base and more than tripled annual net patient revenues to just over $2 billion and more than $1 billion, respectively. Today, MSHA owns and operates 13 acute-care facilities led by the flagship Johnson City Medical Center, a 548-licensed-bed tertiary regional provider. The system's hospital facilities include 1,669 licensed beds (1,305 acute care beds). MSHA also consists of a range of outpatient facilities and ancillary services, such as a home health agency and a hospice, its own provider sponsored health plan, and other activities such as the ownership and management of medical office buildings. In fiscal 2014, MSHA had combined inpatient admissions of just over 57,000, 1.7 million outpatient visits, and 240,000 emergency department visits. As part of its physician integration efforts, MSHA employs 400 physicians through various physician entities, including Mountain States Medical Group.

Management

In January 2014, Alan Levine became President and CEO of MSHA, replacing the retiring Dennis Vonderfecht. Mr. Levine joined MSHA from Health Management Associates, where he served as Group President; before that, he served as Secretary of the Louisiana Department of Health and Hospitals, and Senior Health Policy advisor to Governor Jindal. Also in 2014, Marvin Eichorn became MSHA's COO after having served as the system's CFO for 16 years. Lynn Krutak, who for over 10 years served as Corporate CFO and CFO for MSHA's Blue Ridge Medical Management Corporation, replaced Mr. Eichorn as CFO.

Since the system's creation, MSHA's management and governance have evolved effectively, in our view. A strong central leadership team is focused on maximizing the system's potential as a whole and broadening access to managed-care contracts for all of the facilities while centralizing the negotiations at the system level. It has also centralized other functions like billing and collections, purchasing, and laboratory services. We believe that the above, as well as other recent organizational changes, will be favorable for the organization. In addition, we believe that MSHA's capable 13-member board provides sound governance to the organization.

Market position

The system's core service area encompasses 13 counties in Tennessee and Virginia, where MSHA continues to have a dominant market share. Currently, fewer than 30% of the system's patients originate from its original home county of Washington County, Tenn. In the broader 29-county service area, MSHA has a 38% share, while Wellmont Health System, MSHA's main competitor, holds about a 27% share. There is no significant third player. While MSHA's market share is strong in the core Washington County market, Wellmont Health System dominates in adjacent Sullivan County. However, over the past several years, the two health systems service areas have increasingly overlapped. Although the service area remains competitive, market characteristics remain favorable in terms of population growth, and, in our opinion, the market's size will continue to support two sizable competitors.

Financial Profile

In our view, MSHA's operating performance remained adequate in fiscal 2014, supported by stabilizing inpatient volumes, reduced labor and benefits expense from staff reductions, and improved personnel and productivity management. Net patient revenues, however, continued to be offset by a sizable and growing provision for bad debts despite the commercial exchanges going live in January 2014. Like almost all other acute care providers, MSHA continues to incur sizable costs to transform its processes to succeed in the changing health care landscape and under the Affordable Care Act. In addition, reimbursement from both governmental and commercial sources remains under pressure.

For the fiscal year ended June 30, net operating income was $7.0 million (as per Standard & Poor's methodology), or a 0.7% margin, on $1.0 billion in total operating revenues. Results were down from $11.5 million, or a 1.1% margin, on $1.01 billion in total operating revenues in fiscal 2013. For the year, inpatient admissions were modestly lower year over year, at 57,040 (or a 1.8% decrease), compared with 58,103 in fiscal 2013. Like the previous year, the inpatient volume decline in fiscal 2014 reflected market and industry conditions. However, since the fiscal year end, MSHA's inpatient volume trends have improved. For fiscal 2015, patient volumes are expected to increase, with inpatient admissions budgeted to increase to 57,904 and outpatient volumes by about 3.5%, to 1.75 million visits.

Net excess income for fiscal 2014 was solid and improved over fiscal 2013, at $37.6 million (a 3.7% margin), compared with $35.1 million (a 3.4% margin) the previous year. MSHA's EBIDA margin was 14.9% in fiscal 2014. Coverage, based on MADS of $67 million, was 2.3x for fiscal 2014.

Interim

On an interim basis for the three months ended Sept. 30, 2014, MSHA had operating income of $2.0 million (as per Standard & Poor's calculations) and a net excess before extraordinary items of $5.3 million, generating cash flow adequate to support annualized MADS coverage of 2.0x.

Five-year financial plan

MSHA's five-year forecast calls for inpatient admissions to increase in fiscal 2015 and then decrease by 4.3% to 4.7% per year until fiscal 2019. The forecast further assumes no Medicaid expansion in Tennessee or Virginia, and factors in additional declines in Medicare reimbursement. However, supported by reduced length of stay and other operating and cost containment initiatives, management expects to sustain $150 million to $160 million of annual EBIDA, which is adequate to comfortably support debt service and further reduce debt. For fiscal 2015, MSHA is budgeting operating income of $29.2 million and EBIDA of $153 million, which would produce 2.3x MADS.

Balance sheet

MSHA's aggressive acquisition spending ended several years ago, and, while we believe that made the system a stronger competitor, it resulted in high leverage, which has been an impediment to MSHA achieving a higher rating. As of Sept. 30, 2014, MSHA's long-term debt to capitalization was 59%, which, due to robust operating cash flow, has continued to improve from as high as 79% in fiscal 2009.

Unrestricted cash and investments totaled $642 million at Sept. 30, 2014, equal to 251 days' cash, which we view as robust for the rating level. Due to high system leverage, cash to debt is approximately 61%, which remains well below the median for the current rating. MSHA remains in compliance with all bond covenants.

MSHA's current average age of plant is just under 11 years, which we consider in line with the median, and the system has only modest (in our opinion) capital plans during the next several years. As a result, we believe that MSHA will be able to comfortably maintain robust days' cash and be able to accelerate the reduction of outstanding debt. Management plans $31 million of additional debt reductions beyond the required amortization in fiscal 2015.

Management plans to spend about $53 million on capital expenditures in fiscal 2015, primarily on IT and other small projects. Spending for fiscal 2015 represents about 75% of fiscal 2014 depreciation. Between fiscal 2016 and fiscal 2019, capital spending is expected to be moderate, at well less than 100% of depreciation. Spending in fiscal years

2017 and 2018 is expected to include the construction of the new 20-bed replacement hospital for Unicoi County, as part of MSHA's hospital affiliation agreement that was effective in November 2013. Management has no future financing plans as Unicoi and other projects will be funded from operations.

Mountain States Health Alliance

		Fiscal year ended June 30,		Medians	
Selected financial statistics	**Three-month interim ended Sept. 30, 2014**	**2014**	**2013**	**Health care system BBB+ 2013**	**Health care system A- 2013**
Financial performance					
Net patient revenue ($000s)	241,163	927,784	932,748	1,049,981	1,567,503
Total operating revenue ($000s)	252,684	1,000,924	1,011,206	MNR	MNR
Total operating expenses ($000s)	250,663	993,880	999,737	MNR	MNR
Operating income ($000s)	2,021	7,044	11,469	MNR	MNR
Operating margin (%)	0.80	0.70	1.13	0.90	1.50
Net non-operating income ($000s)	(6,101)	30,604	23,616	MNR	MNR
Excess income ($000s)	(4,080)	37,648	35,085	MNR	MNR
Excess margin (%)	(1.65)	3.65	3.39	3.00	3.60
Operating EBIDA margin (%)	12.02	12.25	13.44	8.90	8.40
EBIDA margin (%)	9.84	14.85	15.41	10.20	9.50
Net available for debt service ($000s)	24,271	153,219	159,489	115,667	166,108
Maximum annual debt service ($000s)	67,252	67,252	67,252	MNR	MNR
Maximum annual debt service coverage (x)	1.44	2.28	2.37	2.50	3.40
Operating lease-adjusted coverage (x)	1.44	2.14	2.21	2.10	2.60
Liquidity and financial flexibility					
Unrestricted reserves ($000s)	641,902	646,460	588,478	574,523	761,463
Unrestricted days' cash on hand	251.0	255.7	233.8	144.60	163.90
Unrestricted reserves/total long-term debt (%)	61.0	60.1	54.0	106.70	119.60
Average age of plant (years)	11.2	10.6	8.7	11.50	11.40
Capital expenditures/depreciation and amortization (%)		89.7	130.2	114.10	124.60
Debt and liabilities					
Total long-term debt ($000s)	1,052,372	1,075,069	1,090,348	MNR	MNR
Long-term debt/capitalization (%)	59.0	59.9	62.3	46.20	42.50
Debt burden (%)	6.82	6.52	6.50	3.00	2.70

MNR: Median not reported.

Related Criteria And Research

Related Criteria

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009

- General Criteria: Methodology: Industry Risk, Nov. 20, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013

Related Research

- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011
- U.S. Not-For-Profit Health Care Outlook Remains Negative Despite A Glimmer Of Relief , Dec. 17, 2014
- Health Care Providers And Insurers Pursue Value Initiatives Despite Reform Uncertainties, May 9, 2013
- Standard & Poor's Assigns Industry Risk Assessments To 38 Nonfinancial Corporate Industries, Nov. 20, 2013
- Health Care Organizations See Integration And Greater Transparency As Prescriptions For Success, May 19, 2014

Ratings Detail (As Of January 9, 2015)		
Mountain States Health Alliance, Series 2000D		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Smyth Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Seies 2010 B and Series 2009B		
Long Term Rating	BBB+/Stable	Affirmed
The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee		
Mountain States Hlth Alliance, Tennessee		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2000C		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2007B-1		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed
Series 2010 A&B, 2006A and 2009A		
Long Term Rating	BBB+/Stable	Affirmed
Series 2011A		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed
Series 2011B		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Long Term Rating	AA+/A-1	Affirmed
Series 2012A		
Long Term Rating	BBB+/Stable	Affirmed
Series 2012B		
Unenhanced Rating	NR(SPUR)	Current
Long Term Rating	NR/NR	Current
Washington Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Ser 2009 C		

Ratings Detail (As Of January 9, 2015) (cont.)		
Long Term Rating	BBB+/Stable	Affirmed
Wise Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Series 2012C		
Unenhanced Rating	NR(SPUR)	Current
Long Term Rating	NR/NR	Current

Many issues are enhanced by bond insurance.

Exhibit 11.5

Financial Summary for Wellmont

Wellmont Summary for the Fiscal Years
Ended June 30, 2011 through June 30, 2015

Volumes:

Fiscal Year ended June 30, 2011:

Inpatients were up 690 or 1.7% and observation patients were up 1,311 or 13.8% (so total "patients in a bed" were up 2,001 or 3.9%). Emergency room visits were down 1.9% primarily due to utilization trends. Other outpatient volumes were up 3.0%. Surgeries were up 2.3% entirely due to outpatient volumes. Deliveries were down 8.1% due to obstetrician turnover at Holston Valley Medical Center and Lonesome Pine Hospital. Physician office visits were up 20.4% primarily due to the acquisitions of a large cardiology practice in May 2010 and a pulmonology practice in January 2011.

Fiscal Year ended June 30, 2012:

Inpatients were down 1,949 or 4.6% and observation patients were up 2,828 or 26.1% (so total "patients in a bed" were up 879 or 1.7%), due to a change in post-surgical patient classification and to continued managed care payor changes. Emergency room visits were the same as last year and other hospital outpatient volumes were up 5.1%. Surgical volumes were the same as last year and deliveries were down 1.7%. Physician office visits were up 15.9% primarily due to the acquisitions of a cardiology practice in October 2011 and a multispecialty practice in January 2012.

Fiscal Year ended June 30, 2013:

Inpatients were down 2,323 or 5.8% and observation patients were up 72 or 0.5% (so total "patients in a bed" were down 2,251 or 4.2%) primarily due to reduced inpatient utilization from the implementation of the accountable care organizations in our area. Emergency room visits were down 6.7% due to Wellmont now having three urgent care centers as a more cost effective and patient friendly alternative, other outpatient volume was up 0.5%, and surgeries were down 2.6%. Deliveries were up 14.3% as a result of new physicians and physician office visits were up 17.2% primarily due to the urgent care centers and the acquisitions of a cardiology practice in October 2011 and a multispecialty practice in January 2012.

Fiscal Year ended June 30, 2014:

Inpatients were down 2,066 or 5.7% and observation patients were up 1,192 or 9.2% (so total "patients in a bed" were down 874 or 1.8%) primarily due to reduced utilization from the implementation of the accountable care organizations and high deductible plans in our area. Emergency room visits were down 4.7% due to Wellmont now having four urgent care centers and surgeries were down 2.2%, with all of the surgery decrease coming from the ambulatory surgery centers which is attributed to the increase in high deductible plans in our area.

Deliveries were down 99 or 4.3%. Physician office visits were up 2.6%, including urgent care visits which were up 30.5% due to Wellmont now having four urgent care centers.

Fiscal Year ended June 30, 2015:

Inpatients were down 1,320 or 3.8% and observation patients were up 2,488 or 17.5% (so total "patients in a bed" were up 1,168 or 2.4%) primarily due to reduced inpatient utilization from the implementation of the accountable care organizations and high deductible plans in our area and the continued shift to observation patient status. Emergency room visits were up 4.7%, surgeries were down 2.3%, and deliveries were up 1.6%. Outpatient volumes are generally up, especially due to the expansion of infusion centers (visits up 64%) and urgent care centers (visits up 88%).

Statement of Operations:

Fiscal Year ended June 30, 2011:

Net patient revenue increased $23.2 million and bad debt expense increased $1.8 million over fiscal 2010, so the net change of these two lines is an increase of $21.4 million or 3.3%. Other revenue decreased as a result of lower performance related to the Takoma, imaging and lab joint ventures.

Salaries and benefits increased by $6.2 million or 2.0% driven by the higher volumes, an increase in FTEs for patient care as well as to support computerized order entry and electronic health record system build and implementation. Supplies increased by $8.3 million or 5.5% driven by the higher volumes and higher drug costs, particularly in oncology. Purchased services increased by $3.5 million as a result of physician fees at the hospitals, a new urgent care operation, and physician practice management and system implementation costs. Interest and depreciation increases are related to the completion of Project Platinum.

Income from operations of $17.2 million for fiscal 2011 was below fiscal 2010 of $22.8 million.

Fiscal Year ended June 30, 2012:

Net patient revenue increased $12.2 million or 1.7% over fiscal 2011. Other revenue increased $18.1 million primarily as a result of the Electronic Health Record Meaningful Use amounts earned during the year, with $13.1 million earned by Wellmont Health System hospitals and physician practices and $3.2 million earned by Takoma Regional Hospital (of which Wellmont Health System owns 60% so recorded $1.9 million). However, significant costs were incurred to purchase and implement the systems necessary to achieve Meaningful Use. This includes approximately $13 million of capital costs which resulted in approximately $5 million of annual depreciation and maintenance costs plus $4.6 million of staff costs to implement the systems.

Salaries and benefits increased $21.6 million or 6.2% primarily due to the physician practice acquisitions ($9.5 million) and the $4.6 million to implement the systems. Hospital productivity improved, as hours per adjusted discharge decreased 6.7%. Supplies increased $3.8 million or 2.4% primarily due to growth in infusion volumes, particularly in oncology.

Income from operations of $22.3 million for fiscal 2012 exceeded fiscal 2011 of $17.2 million.

<u>Fiscal Year ended June 30, 2013</u>:

Net patient service revenue increased $14.0 million or 1.9% from fiscal 2012. Other revenue decreased $4.2 million primarily as a result of lower volumes in subsidiaries providing services to hospitals such as laundry and blood services ($1.5 million) and lower earnings in an imaging joint venture ($1.3 million). Note that there was $13.7 million of Electronic Health Record Meaningful Use amounts earned in fiscal 2013 which is essentially the same as fiscal 2012 amounts of $13.2 million.

Salaries and benefits increased $12.9 million or 3.5%, primarily driven by the physician practice growth and acquisitions and an increase in healthcare benefit costs due to increasing enrollment. Supplies decreased $0.4 million or 0.3%. Purchased services increased $1.4 million or 1.8% from several factors, the largest of which are from changes in the hospital physician services such as anesthesia and emergency medicine. Interest expense was essentially unchanged. Depreciation increased $5.0 million or 10.7% primarily for systems necessary to achieve Meaningful Use.

Income from operations of $12.9 million for fiscal 2013 was below fiscal 2012 of $22.3 million.

<u>Fiscal Year ended June 30, 2014</u>:

Net patient service revenue increased $5.3 million or 0.7% compared to fiscal 2013. The acquisition of Wexford House and consolidation of Holston Valley Imaging Center added $11.3 million of net revenue, while the same store net revenue decreased $6.0 million due to Medicare reimbursement reductions and volume decreases.

Other revenue decreased $12.7 million primarily as a result of (a) $7.2 million of Electronic Health Record Meaningful Use amounts earned in fiscal 2014 being $5.1 million below fiscal 2013 amounts of $12.3 million due to the scheduled annual decreases in the program's payments, (b) blood bank revenue reductions of $3.4 million due to the loss of a significant contract, and (c) $1.9 million from lower performance of the managed care, home care and Takoma joint ventures.

Salaries and benefits increased slightly by $1.2 million or 0.3%. Supplies increased $4.1 million or 2.5% primarily in chemotherapy drug volume and cost. Purchased services decreased $4.0 million or 5.2% due to changes in physician agreements. Interest expense decreased by $1.9 million or 9.6% due to the capitalization of interest for the Epic electronic health record project and scheduled decreases in outstanding principal. Depreciation increased by $0.6 million or 1.2%. Lease and rental decreased by $2.4 million or 13.3% due to the conversion of some operating leases to capital leases. Other expenses increased $5.6 million or 20.8% primarily due to an increase in the professional and general liability expense of $3.5 million and to the change in allocation of support services costs as a result of the closure of Lee Regional Medical Center.

Income from operations of $4.8 million for fiscal 2014 was below fiscal 2013 of $15.4 million.

Fiscal Year ended June 30, 2015:

Net patient service revenue increased $47.7 million or 6.4% compared to fiscal 2014 due to (a) the Wexford House acquisition in December 2013 and the HVIC acquisition at the end of March 2014 and (b) the increase in other outpatient revenue. Other revenue decreased $7.7 million primarily as a result of (a) $3.2 million of Electronic Health Record Meaningful Use amounts earned in fiscal 2015 being $4.0 million below fiscal 2014 amounts of $7.2 million due to reduced payments from lower volumes and the scheduled annual decreases in the program's payments, (b) blood bank revenue reductions of $1.7 million due to the loss of a significant contract, and (c) $3.0 million decrease from the prior investment in HVIC now being consolidated in each line of the statement of operations.

Salaries and benefits increased $25.6 million or 6.9% as a result of (a) the acquisitions noted above and (b) one-time five year physician retention compensation earned. Supplies were up 1.2%. Purchased services increased 2.8%. Interest expense decreased 3.2%. Depreciation increased $8.5 million or 17.0% due to the Epic system going live in April 2014. All other expenses increased 0.6%.

Income from operations of $6.7 million for fiscal 2015 was above fiscal 2014 of $4.8 million.

Balance Sheet and Ratios:

Fiscal Year ended June 30, 2011:

In May 2011, the Series 2006A bonds (par $76,595,000) were refunded with the Series 2011 bonds (par $76,165,000). The total return swap associated with the Series 2006A bonds was terminated and a new total return swap associated with the Series 2011 bonds was initiated with a different counterparty. Also in May 2011, the letter of credit provider on the Series 2005 bonds was replaced with a different letter of credit provider. In November 2010, a $30 million bank qualified loan was issued with a cumulative drawdown of $15 million at June 30, 2011. This partially offset the use of $13 million in the first quarter to pay off the taxable bond issue. $7 million of the short term note payable was repaid in January 2011 and the remaining $7 million was repaid in June 2011. The purchase of the pulmonary practice that operated a free standing ambulatory surgery center and two sleep laboratories resulted in the increase in goodwill. Net patient receivables grew as a result of our physician practice acquisitions and billing system conversion. Debt to capitalization and debt service coverage both improved. Days cash on hand decreased slightly due to the acquisitions and debt changes.

Fiscal Year ended June 30, 2012:

Days cash on hand increased as a result of the strong operating performance and investment returns. Net patient accounts receivable increased primarily as a result of the physician practice acquisitions. Other receivables increased due to the accrual of the Meaningful Use amounts earned at June 30, 2012. Accounts payable and accrued expenses increased primarily due to having a pay period end on June 30, 2012. Net assets was negatively impacted by an increase in pension liabilities as a result of the continued low interest rate environment. Debt to capitalization and debt service coverage ratios both improved as a result of the strong operating performance.

Fiscal Year ended June 30, 2013:

Days cash on hand increased primarily as a result of strong investment valuations, receipt of Meaningful Use funds, and net borrowings. The net borrowings consist of (a) $12.5 million taxable bank loan for the Epic implementation (fully drawn), (b) $42.5 million of tax exempt lease for the Epic implementation ($16.2 million drawn thus far), (c) $10 million lease line of credit ($5.2 million drawn thus far), less (d) regular debt and capital lease payments of $14.5 million. Other receivables decreased due to the receipt of the Meaningful Use amounts earned and accrued at June 30, 2012. The debt to capitalization ratio improved slightly due to the increase in net assets outweighing the impact of the net borrowings. The debt service coverage ratio dropped slightly due to the net borrowings.

Fiscal Year ended June 30, 2014:

The significant changes in the balance sheet were (a) expenditures for the Epic electronic health record project of $60.2 million and draws on the financing thereof of $26.7 million, (b) the acquisition of Wexford House of $13.5 million ($5.8 million land, buildings and equipment and $7.7 million goodwill), (c) the acquisition of the remaining 25% of Holston Valley Imaging Center of $7.9 million (all goodwill), (d) the associated conversion of Holston Valley Imaging Center from the equity method to consolidation which resulted in an increase in goodwill of $21.5 million, (e) the impairment of Lee Regional Medical Center of $22.5 million ($21.7 million buildings and equipment and $0.8 million goodwill) and (f) the sale of Wellmont Health System's 60% interest in Takoma Regional Hospital of $11.7 million as of July 1, 2014 (the cash was received on June 30, 2014 and is in other current liabilities). In addition, the 2003, 2005 and 2010 series of debt were refinanced in June with new direct placement tax-exempt debt.

Days cash on hand increased as a result of the above activity and appreciation of the investment portfolio. The debt to capitalization ratio improved slightly. The debt service coverage ratio decreased due to income available for debt service being $17.8 million lower and MADS being $1.5 million higher.

Fiscal Year ended June 30, 2015:

The only significant changes in the balance sheet were the sale of Wellmont Health System's 60% interest in Takoma Regional Hospital of $11.7 million as of July 1, 2014 (the cash was received on June 30, 2014 and was in other current liabilities). In addition, a portion of the

Series 2006C debt was advance refunded in September with new direct placement tax-exempt debt.

Cash on hand decreased by 2 days and the debt to capitalization ratio and debt service coverage ratio both improved slightly.

Attachments:

- Attachment A - 2011 Bonds Official Statement for 2011 bonds
- Attachment B - Audits – External audited financial statements for 2011 to 2014
- Attachment C - EMMA – Annual Disclosures for 2011 to 2015 and Material Event Disclosures
- Attachment D - External Auditor Management Letters for 2011 to 2014
- Attachment E- Rating Agencies – Fitch and Standard & Poors Reports