HISTORICAL DEBT SERVICE COVERAGE RATIO

and

HISTORICAL MAXIMUM ANNUAL DEBT SERVICE COVERAGE RATIO

MOUNTAIN STATES HEALTH ALLIANCE OBLIGATED GROUP

(Dollars in Thousands)

Year Ended June 30, 2014

Income available for debt service - Historical	$	129,019
Income available for maximum annual debt service	$	129,271
Historical debt service requirement	$	70,802
Historical maximum annual debt service requirement	$	73,905
Historical debt service coverage ratio		1.82
Historical maximum annual debt service coverage ratio		1.75

Exhibit 11.4 - Attachment F

Mountain States Audited Financial Statements for 2009 to 2014

Submitted on February 16, 2016

and

Audited Financial Statement on MSHA as of June 30, 2015

*Submitted on July 13, 2016 as **Exhibit 23** to Response #1 to Questions Submitted April 22, 2016 by Tennessee Department of Health*

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
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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.

Pershing Yoakley & Associates, P.C.

Knoxville, Tennessee
October 25, 2010

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	June 30, 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	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:		
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:

	Notional		Payments by:	
Swap	*Amount*	*Term*	*Counterparty*	*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***	***Outstanding Balance 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	Outstanding Balance 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.
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One Cherokee Mills, 2220 Sutherland Avenue
Knoxville, TN 37919

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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

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

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:

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	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	Outstanding Balance 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

Certified Public Accountants

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Schedules)

Years Ended June 30, 2012 and 2011

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 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

See notes to consolidated financial statements.

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:

Description	Maturities	Rates	Outstanding Balance 2012	Outstanding Balance 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	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: Mountain States Health Alliance	Other Obligated Group Members: Noncontrolling Interests	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 (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

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	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	Year Ended June 30, 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 Amount	*Term*	*Counterparty*	*Payments by: Receive*	*Pay*	*Estimated Fair Value 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

			Outstanding Balance	
Description	Maturities	Rates	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			Total	Other Entities		Total			
		Mountain States Health Alliance	Noncontrolling Interests	Eliminations	Obligated Group	Mountain States Health Alliance	Noncontrolling Interests	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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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	June 30, 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	Year Ended June 30, 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

See notes to consolidated financial statements.

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	Year Ended June 30, 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	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

	2014	2013
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.

(Dollars in Thousands)

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*	*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 23

Audited Financial Statement on MSHA as of June 30, 2015

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Information)

Years Ended June 30, 2015 and 2014

PYA
Certified Public Accountants

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Information)
(Dollars in Thousands)

Years Ended June 30, 2015 and 2014

PYA
Certified Public Accountants

PERSHING YOAKLEY & ASSOCIATES, P.C.
One Cherokee Mills, 2220 Sutherland Avenue
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mountain States Health Alliance:

Report on the Consolidated Financial Statements

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, 2015 and 2014, 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.

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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, 2015 and 2014, 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.

Report on Supplementary Information

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 28, 2015

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30, 2015	June 30, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 79,714**	$ 59,185
Current portion of investments	**19,598**	25,029
Patient accounts receivable, less estimated allowances for uncollectible accounts of $73,805 in 2015 and $47,853 in 2014	**162,256**	161,318
Other receivables, net	**33,286**	45,502
Inventories and prepaid expenses	**33,969**	30,838
TOTAL CURRENT ASSETS	**328,823**	321,872
INVESTMENTS, less amounts required to meet current obligations	**694,542**	648,475
PROPERTY, PLANT AND EQUIPMENT, net	**847,089**	881,429
OTHER ASSETS		
Goodwill	**156,596**	156,613
Net deferred financing, acquisition costs and other charges	**24,755**	25,841
Other assets	**53,040**	48,350
TOTAL OTHER ASSETS	**234,391**	230,804
	$ 2,104,845	$ 2,082,580

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets - Continued
(Dollars in Thousands)

	June 30, 2015	June 30, 2014
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	**$ 18,159**	$ 18,648
Current portion of long-term debt and capital lease obligations	**40,286**	30,618
Accounts payable and accrued expenses	**100,301**	87,126
Accrued salaries, compensated absences and amounts withheld	**72,066**	72,181
Estimated amounts due to third-party payers, net	**4,781**	10,463
TOTAL CURRENT LIABILITIES	**235,593**	219,036
OTHER LIABILITIES		
Long-term debt and capital lease obligations, less current portion	**1,031,661**	1,075,069
Estimated fair value of derivatives	**2,541**	10,603
Estimated professional liability self-insurance	**8,461**	8,957
Other long-term liabilities	**38,683**	35,974
TOTAL LIABILITIES	**1,316,939**	1,349,639
COMMITMENTS AND CONTINGENCIES - Notes D, F, G, and M		
NET ASSETS		
Unrestricted net assets		
Mountain States Health Alliance	**583,287**	541,979
Noncontrolling interests in subsidiaries	**191,118**	178,547
TOTAL UNRESTRICTED NET ASSETS	**774,405**	720,526
Temporarily restricted net assets		
Mountain States Health Alliance	**13,303**	12,204
Noncontrolling interests in subsidiaries	**71**	84
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**13,374**	12,288
Permanently restricted net assets	**127**	127
TOTAL NET ASSETS	**787,906**	732,941
	$ 2,104,845	$ 2,082,580

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations
(Dollars in Thousands)

	Year Ended June 30, 2015	Year Ended June 30, 2014
Revenue, gains and support:		
Patient service revenue, net of contractual allowances and discounts	**$ 1,116,954**	$ 1,046,767
Provision for bad debts	**(127,519)**	(122,642)
Net patient service revenue	**989,435**	924,125
Premium revenue	**32,184**	10,683
Net investment gain	**17,016**	50,703
Net derivative gain	**13,890**	3,219
Other revenue, gains and support	**36,571**	62,457
TOTAL REVENUE, GAINS AND SUPPORT	**1,089,096**	1,051,187
Expenses and losses:		
Salaries and wages	**345,155**	340,589
Physician salaries and wages	**80,279**	77,636
Contract labor	**5,416**	4,282
Employee benefits	**77,306**	69,173
Fees	**120,691**	115,606
Supplies	**176,050**	163,699
Utilities	**16,775**	17,052
Medical costs	**18,383**	6,633
Other	**81,477**	79,980
Loss on early extinguishment of debt	**-**	4,622
Depreciation	**67,210**	69,437
Amortization	**1,557**	1,742
Interest and taxes	**43,697**	44,392
TOTAL EXPENSES AND LOSSES	**1,033,996**	994,843
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	**$ 55,100**	$ 56,344

MOUNTAIN STATES HEALTH ALLIANCE

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

Year Ended June 30, 2015

	Mountain States Health Alliance	*Noncontrolling Interests*	*Total*
UNRESTRICTED NET ASSETS:			
Excess of Revenue, Gains and Support over Expenses and Losses	$ 41,008	$ 14,092	$ 55,100
Pension and other defined benefit plan adjustments	(178)	(152)	(330)
Net assets released from restrictions used for the purchase of property, plant and equipment	478	-	478
Repurchases of noncontrolling interests, net	-	(1,014)	(1,014)
Distributions to noncontrolling interests	-	(355)	(355)
INCREASE IN UNRESTRICTED NET ASSETS	41,308	12,571	53,879
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	3,663	69	3,732
Net assets released from restrictions	(2,564)	(82)	(2,646)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	1,099	(13)	1,086
INCREASE IN TOTAL NET ASSETS	42,407	12,558	54,965
NET ASSETS, BEGINNING OF YEAR	554,310	178,631	732,941
NET ASSETS, END OF YEAR	$ 596,717	$ 191,189	$ 787,906

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

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

	Year Ended June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	**$ 54,965**	$ 59,958
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for depreciation and amortization	**69,242**	71,789
Provision for bad debts	**127,519**	122,642
Loss on early extinguishment of debt	**-**	4,622
Change in estimated fair value of derivatives	**(7,718)**	2,761
Equity in net income of joint ventures, net	**(79)**	(369)
Loss (gain) on disposal of assets	**(2,192)**	(3,489)
Amounts received on interest rate swap settlements	**(6,172)**	(5,980)
Capital Appreciation Bond accretion and other	**2,780**	2,629
Restricted contributions	**(3,732)**	(4,781)
Pension and other defined benefit plan adjustments	**330**	(388)
Increase (decrease) in cash due to change in:		
Patient accounts receivable	**(128,457)**	(115,380)
Other receivables, net	**12,303**	(11,880)
Inventories and prepaid expenses	**(3,131)**	959
Trading securities	**(39,873)**	(46,451)
Other assets	**(3,128)**	(2,492)
Accrued interest payable	**(489)**	(1,058)
Accounts payable and accrued expenses	**16,745**	(6,666)
Accrued salaries, compensated absences and amounts withheld	**(115)**	8,006
Estimated amounts due to third-party payers, net	**(5,682)**	(16,312)
Estimated professional liability self-insurance	**(496)**	199
Other long-term liabilities	**2,379**	16,425
Total adjustments	**30,034**	14,786
NET CASH PROVIDED BY OPERATING ACTIVITIES	**84,999**	74,744
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment and property held for expansion	**(44,569)**	(64,424)
Acquisitions, net of cash acquired	**-**	(4,256)
Purchases of held-to-maturity securities	**(1,417)**	(5,978)
Net distribution from joint ventures and unconsolidated affiliates	**4,859**	661
Proceeds from sale of property, plant and equipment and property held for resale	**2,654**	2,858
NET CASH USED IN INVESTING ACTIVITIES	**(38,473)**	(71,139)

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Cash Flows - Continued
(Dollars in Thousands)

	Year Ended June 30,	
	2015	*2014*
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital lease obligations, including deposits to escrow	**(36,210)**	(38,768)
Payment of acquisition and financing costs	**-**	(3,826)
Proceeds from issuance of long-term debt and other financing arrangements	**-**	11,916
Net amounts received on interest rate swap settlements	**6,172**	5,980
Restricted contributions received	**4,041**	5,376
NET CASH USED IN FINANCING ACTIVITIES	**(25,997)**	(19,322)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**20,529**	(15,717)
CASH AND CASH EQUIVALENTS, beginning of year	**59,185**	74,902
CASH AND CASH EQUIVALENTS, end of year	**$ 79,714**	$ 59,185

SUPPLEMENTAL INFORMATION AND NON-CASH TRANSACTIONS:		
Cash paid for interest	**$ 38,982**	$ 40,546
Cash paid for federal and state income taxes	**$ 917**	$ 854
Construction related payables in accounts payable and accrued expenses	**$ 5,034**	$ 8,604
Assets contributed into joint venture	**$ 8,668**	$ -
Supplemental cash flow information regarding acquisitions:		
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 primary operations of the Alliance consist of eleven acute and specialty care hospitals.

The Alliance's accompanying consolidated financial statements include all assets, liabilities, revenues, expenses, and changes in net assets attributable to the noncontrolling interests in the following subsidiaries:

- Smyth County Community Hospital and Subsidiary - the Alliance holds an 80% interest
- Norton Community Hospital and Subsidiaries - the Alliance holds a 50.1% interest
- Johnston Memorial Hospital, Inc. and Subsidiaries - the Alliance holds a 50.1% interest

The Alliance is the sole shareholder of Blue Ridge Medical Management Corporation (BRMM), a for-profit entity that owns and manages physician practices, real estate and ambulatory surgery centers and provides other healthcare services to individuals in Tennessee and Virginia.

The Alliance is a 99.9% shareholder of Integrated Solutions Health Network, LLC, a for-profit entity that owns a for-profit insurance company and an accountable care organization and administers a provider-sponsored health care delivery network,

The Alliance is the primary beneficiary of the activities of Mountain States Foundation, Inc., a not-for-profit foundation formed to coordinate fundraising and development activities of the Alliance.

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.

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 utilizing observable and unobservable inputs. 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. 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.

Management evaluates whether unrealized losses on held-to-maturity investments indicate other-than-temporary impairment. Such 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, 2015.

Investments in joint ventures are reported under the equity method of accounting, which approximates the Alliance's equity in the underlying net book value. Other assets include investments in joint ventures of $5,180 and $1,364 at June 30, 2015 and 2014, respectively. During 2015, the Alliance contributed assets into a joint venture which owns and operates a rehabilitation hospital.

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. 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 2015 and 2014.

Other assets include property held for resale and expansion of $19,316 and $20,793, respectively, at June 30, 2015 and 2014. Property held for resale and expansion primarily represents 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 2015 and 2014.

Goodwill: Goodwill is evaluated for impairment at least annually. The Alliance comprises a single reporting unit for evaluation of goodwill. Management performed an evaluation of goodwill for impairment considering qualitative and quantitative factors and does not believe the goodwill to be impaired as of June 30, 2015 and 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 $24,755 and $25,841 at June 30, 2015 and 2014, respectively. Deferred financing costs are amortized over the life of the respective bond issue using the average bonds outstanding method.

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.

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 their 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 $85,988 and $109,550 during 2015 and 2014, respectively. The estimated direct and indirect cost of providing these services totaled $17,953 and $24,011 in 2015 and 2014, 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, 2015 and 2014. At June 30, 2015, tax returns for 2011 through 2014 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: Premium revenue include premiums from individuals and the Centers for Medicare & Medicaid Services (CMS). CMS premium revenue is 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. Management evaluated the need for a premium deficiency reserve and recorded an estimated reserve of $2,000 at June 30, 2015 and 2014.

Medicare Shared Savings Program (MSSP): The Alliance 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. Accountable care organizations 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. Utilizing statistical data and the methodology employed by CMS, management estimated and recognized $2,857 and $5,425 of shared savings in 2015 and 2014, respectively.

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, 2015 and 2014, the Alliance recognized EHR incentive revenues of $1,883 and $18,269, 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 members by third-party providers, which have been incurred but not reported.

Subsequent Events: The Alliance evaluated all events or transactions that occurred after June 30, 2015, through October 28, 2015, 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, 2015 consolidated financial statements, other than as disclosed in Note P.

Reclassifications: Certain 2014 amounts have been reclassified to conform with the 2015 presentation in the accompanying consolidated financial statements.

New Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. Under ASU 2014-09, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the accounting standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the impact of adopting the accounting standard.

(Dollars in Thousands)

NOTE C--INVESTMENTS

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

		2015		***2014***
Designated or restricted:				
Under safekeeping agreements	$	8,221	$	8,220
By Board to satisfy regulatory requirements		1,529		6,759
Under bond indenture agreements:				
For debt service and interest payments		53,812		55,123
For capital acquisitions		8,507		16,127
		72,069		86,229
Less: amount required to meet current obligations		(19,598)		(25,029)
	$	52,471	$	61,200

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

		2015		***2014***
Cash and cash equivalents	$	49,665	$	54,437
U.S. Government and agency securities		19,757		28,518
Corporate and foreign bonds		860		2,354
Municipal obligations		1,787		920
	$	72,069	$	86,229

Held-to-maturity securities (other than assets limited as to use) are carried at amortized cost and consist of the following at June 30:

		2015		***2014***
Cash and cash equivalents	$	2,781	$	220
Corporate and foreign bonds		30,967		35,131
Municipal obligations		5,765		3,408
	$	39,513	$	38,759

Held-to-maturity securities had gross unrealized gains and losses of $98 and $425, respectively, at June 30, 2015 and $206 and $456, respectively, at June 30 2014. At June 30, 2015, the Alliance held securities within the held-to-maturity portfolio with a fair value and unrealized loss of $12,710 and $359, respectively, which had been at an unrealized loss position for over one year. 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, 2015, the contractual maturities of held-to-maturity securities were $10,020 due in one year or less, $16,580 due from one to five years and $12,913 due after five years.

(Dollars in Thousands)

Trading securities consist of the following at June 30:

	2015	*2014*
Cash and cash equivalents	$ 20,789	$ 50,623
U.S. Government and agency securities	76,167	69,805
Corporate and foreign bonds	95,726	96,749
Municipal obligations	23,330	21,409
U.S. equity securities	5,419	1,868
Mutual funds	293,983	253,301
Alternative investments	87,144	54,761
	$ 602,558	$ 548,516

The net investment gain is comprised of the following for the years ending June 30:

	2015	*2014*
Interest and dividend income, net of fees	$ 13,894	$ 12,074
Net realized gains on the sale of securities	9,260	15,311
Change in net unrealized gains on securities	(6,138)	23,318
	$ 17,016	$ 50,703

The Alliance is a member of Premier Inc.'s (Premier) group purchasing organization and holds Class B Units which are convertible into cash or Class A common stock over a seven year vesting period. The Alliance records an investment relative to the estimated fair value of its Class B units, $14,724 and $14,713 at June 30, 2015 and 2014, respectively. 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 Consolidated Balance Sheets. The liability is being amortized as a vendor incentive over the vesting period. During 2015 and 2014, the Alliance recognized $4,045 and $2,933, respectively, related to the vendor incentive which is included within other revenue, gains and support in the Consolidated Statements of Operations.

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS

The Alliance is subject to an enforceable master netting arrangement in the form of an ISDA agreement with Bank of America, Merrill Lynch (BofAML). The ISDA agreement requires that the Alliance post additional collateral for the derivatives' fair market value deficits above specified levels. As of June 30, 2015 and 2014, the Alliance was not required to post additional collateral. Under the terms of this agreement, offsetting of derivative contracts is permitted in the event of default of either party to the agreement.

The following is a summary of the interest rate swap agreements at June 30, 2015 and 2014:

Notional Amount	*Termination*	*Counterparty*	*Current Payments: Receive*	*Pay*	*Estimated Fair Value 2015*	*2014*
$170,000	4/2026	BofAML	1.14%	0.00%	$ 5,205	$ 3,089
$95,000	4/2026	BofAML	1.14%	0.00%	2,929	1,748
$173,030	4/2034	BofAML	1.16%	0.00%	884	(1,884)
$82,055	7/2033	BofAML	67% USD-LIBOR-BBA	0.312% + USD-SIFMA	(8,253)	(9,365)
$50,000	7/2038	BofAML	67% (USD-LIBOR-BBA + 0.15%)	USD-SIFMA	(3,351)	(4,210)
$19,400	7/2018	BofAML	4.50%	1.05% + USD-SIFMA	48	63
$4,293	7/2015	First Tennessee Bank	0.00%	USD-LIBOR-BBA	(3)	(44)
					$ (2,541)	$ (10,603)

The Alliance recognized net settlement income on the interest rate swap agreements of $6,172 and $5,980 in 2015 and 2014, respectively.

(Dollars in Thousands)

NOTE E--PROPERTY, PLANT AND EQUIPMENT

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

	2015	2014
Land	$ 60,337	$ 60,722
Buildings and leasehold improvements	766,089	760,853
Property and improvements held for leasing	83,582	80,824
Equipment and information technology infrastructure	733,315	700,748
Buildings and equipment held under capital lease	249	340
	1,643,572	1,603,487
Less: Allowances for depreciation and amortization	(815,105)	(757,641)
	828,467	845,846
Construction in progress	18,622	35,583
	$ 847,089	$ 881,429

Accumulated depreciation and amortization on property and improvements held for leasing purposes is $29,520 and $27,500 at June 30, 2015 and 2014, respectively. Net interest capitalized was $925 and $1,533 for the years ended June 30, 2015 and 2014, respectively.

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, 2015	Outstanding Balance 2015	Outstanding Balance 2014
2013 Hospital Revenue and Refunding Revenue Bonds:			
$61,180 variable rate tax-exempt term bond, due August 2031	1.15%	$ 327,785	$ 328,665
$47,970 variable rate tax-exempt term bond, due August 2032	0.93%		
$13,350 variable rate tax-exempt term bond, due August 2038	1.15%		
$89,370 variable rate tax-exempt term bonds, due August 2042	1.12% - 1.23%		
$16,235 variable rate tax-exempt term bond, due August 2043	0.07%		
$99,680 variable rate taxable term bond due August 2043	0.12%		
2012 Hospital Revenue Bonds:			
(net of unamortized premium of $1,696 and $1,756 at June 30, 2015 and 2014, respectively)			
$55,000 fixed rate tax-exempt term bond, due August 2042	5.00%	56,696	56,756
2011 Hospital Revenue and Refunding and Improvement Bonds:			
$74,795 variable rate tax-exempt term bonds, due July 2033	0.08%	94,320	104,710
$19,525 variable rate tax-exempt term bond, due July 2033	1.11%		

(Dollars in Thousands)

Description	*Rate as of June 30, 2015*	*Outstanding Balance 2015*	*2014*
2010 Hospital Revenue Refunding Bonds:			
(net of unamortized premium of $1,441 and $1,523 at June 30, 2015 and 2014, respectively)			
$33,960 fixed rate tax-exempt serial bonds, through 2020	4.00% to 5.00%	173,271	180,993
$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 $2,176 and $2,267 at June 30, 2015 and 2014, respectively)			
$14,425 fixed rate tax-exempt term bonds, due July 2019	7.25%	117,264	119,813
$21,730 fixed rate tax-exempt term bonds, due July 2029	7.50%		
$83,285 fixed rate tax-exempt term bonds, due July 2038	7.75% - 8.00%		
2007B Taxable Hospital Revenue Bonds:			
$15,920 variable rate taxable term bond due July 2019	0.12%	15,920	19,515
2006 Hospital First Mortgage Revenue Bonds:			
(net of unamortized premium of $123 and $129 at June 30, 2015 and 2014, respectively)			
$3,965 fixed rate tax-exempt serial bonds, through 2019	5.00%	167,143	167,864
$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:			
$19,400 fixed rate tax-exempt term bond, due July 2026	4.50%	19,400	20,400
2000 Hospital First Mortgage Revenue and Refunding Bonds:			
$42,000 fixed rate tax-exempt term bond, due July 2026	8.50%	81,538	81,006
$39,538 fixed rate tax-exempt Capital Appreciation Bond, 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	350	806
Notes payable secured by real estate			
Paid-off in 2015	Various	-	5,542
Promissory notes secured by assets of certain subsidiaries			
Various monthly principal and interest payments through 2019	Various	1,705	1,944
Term note			
Monthly principal payments of $60 plus variable rate interest beginning November 2012 through September 2015; remaining principal due October 2015	1.17%	16,160	16,883
Notes payable secured by equipment			
Various monthly principal and interest payments through 2016	Various	395	790
		1,071,947	1,105,687
Less current portion		(40,286)	(30,618)
		$ 1,031,661	$ 1,075,069

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 $81,538 and $81,006 at June 30, 2015 and 2014, respectively. Under terms of these policies, the insurer guarantees the Alliance's payment of principal and interest. At June 30, 2015 and 2014, the Alliance held $206,630 and $212,360, respectively, in variable rate demand bonds with letter of credit support and $231,395 and $240,530, 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 Alliance advance refunded 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. Debt outstanding and not recognized in the Consolidated Balance Sheet at June 30, 2015 due to previous advance refundings totaled $185,470.

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.

Financing Arrangements: The Alliance granted a deed of trust on Johnson City Medical Center and Sycamore Shoals Hospital to secure the payment of the outstanding bond 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 Johnston Memorial Hospital, Inc. and Subsidiaries (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)

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, 2015.

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, 2015 are as follows:

Year Ending June 30,		
2016		$ 40,286
2017		24,112
2018		24,793
2019		25,926
2020		27,048
Thereafter		928,699
		1,070,864
	Net premium	1,083
		$ 1,071,947

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. In the State of Virginia, the Alliance is not self-insured and maintains workers' compensation insurance through commercial carriers.

(Dollars in Thousands)

At June 30, 2015, 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, 2015 that may result in the assertion of additional claims, and other unreported claims may be asserted arising from services provided in the past. 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, 2015 and 2014 was $12,616 and $13,220, respectively. The discount rate utilized was 5% at June 30, 2015 and 2014.

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. 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:

	2015	2014
Third-party payers	$ 965,865	$ 933,491
Patients	151,089	113,276
Patient service revenue	$ 1,116,954	$ 1,046,767

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 $73,805 and $47,853 at June 30, 2015 and 2014, respectively. The allowance for doubtful accounts increased from 23% of patient accounts receivable, net of contractual allowances in 2014 to 31% of patient accounts receivable, net of contractual allowances in 2015. The increase is mainly related to the growing popularity of high-deductible insurance plans resulting in higher deductibles and out-of-pocket costs for patients. Management's estimate of the allowance for doubtful accounts is an 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 and Medicaid. These payments recognized totaled $10,386 and $10,860 for the years ended June 30, 2015 and 2014, respectively.

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 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 $3,076 and $6,201 in 2015 and 2014, 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 2016, although the amount of any change cannot be estimated.

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, 2015.

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 defined contribution retirement plan (the Plan) which covers substantially all employees. The Alliance makes 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, 2015 and 2014 was $15,601 and $13,850, respectively.

NCH maintains a frozen defined benefit pension plan and a frozen post-retirement employee benefit plan. The accrued unfunded pension liability was $1,806 and $2,086, and the accrued unfunded post-retirement liability was $6,307 and $5,857 at June 30, 2015 and 2014, 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 dates, although the Alliance does not guarantee any level of benefit will be achieved. The Alliance contributed $1,727 and $511 to the plan during 2015 and 2014, respectively. Other assets at June 30, 2015 and 2014 include $13,030 and $11,302, 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. Contributions to the Section 457(f) plan during 2015 and 2014 were not significant.

NOTE K--CONCENTRATION OF RISK

The Alliance has locations primarily in upper East Tennessee and Southwest Virginia, 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 acute-care operations was approximately 52% of total net patient service revenue in 2015 and 2014.

(Dollars in Thousands)

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.

	2015	*2014*
Medicare	41%	39%
Tenncare/Medicaid	15%	18%
Commercial	26%	28%
Other third-party payers	8%	8%
Patients	10%	7%
	100%	100%

Approximately 91% and 88% of the consolidated total revenue, gains and support were related to the provision of healthcare services during 2015 and 2014, respectively. Admitting physicians are primarily practitioners in the regional area.

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, 2015 and 2014, BRMM and its subsidiaries had net operating loss carryforwards for consolidated federal purposes of $30,700 and $27,085, respectively, related to operating loss carryforwards, which expire through 2033. At June 30, 2015 and 2014, BRMM had state net operating loss carryforwards of $75,619 and $74,191, respectively, which expire through 2029. 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.

(Dollars in Thousands)

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--OTHER COMMITMENTS AND CONTINGENCIES

Construction in Progress: Construction in progress at June 30, 2015 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 $30,508 at June 30, 2015. The Alliance does not expect any significant costs to be incurred for infrastructure improvements to assets held for resale.

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 degrees. 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, 2015 and 2014 include $7,095 and $8,685, 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, 2015 and 2014 was $7,414 and $7,901, 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,		
2016	$	7,346
2017		4,614
2018		3,605
2019		3,279
2020		2,481
Thereafter		11,240
	$	32,565

NOTE N--FAIR VALUE MEASUREMENT

The fair value of financial instruments has been estimated by the Alliance using available market information as of June 30, 2015 and 2014, 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, 2015 and 2014, is $39,186 and $38,508, 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, 2015 and 2014, is $1,130,580 and $1,172,357, 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 Accounting Standards Codification 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

(Dollars in Thousands)

- 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, 2015 and 2014:

	Total	*Level 1*	*Level 2*	*Level 3*
June 30, 2015				
Cash and cash equivalents	$ 70,439	$ 70,439	$ -	$ -
U.S. Government and agency securities	88,083	88,083	-	-
Corporate and foreign bonds	96,586	-	96,586	-
Municipal obligations	23,329	-	23,329	-
U.S. equity securities	5,419	5,419	-	-
Mutual funds	293,983	212,323	81,660	-
Alternative investments	87,144	-	72,420	14,724
Total assets	$ 664,983	$ 376,264	$ 273,995	$ 14,724
Derivative agreements	$ (2,541)	$ -	$ -	$ (2,541)
June 30, 2014				
Cash and cash equivalents	$ 98,956	$ 98,956	$ -	$ -
U.S. Government and agency securities	90,474	90,474	-	-
Corporate and foreign bonds	99,103	-	99,103	-
Municipal obligations	21,409	-	21,409	-
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	$ 368,365	$ 251,507	$ 14,713
Derivative agreements	$ (10,603)	$ -	$ -	$ (10,603)

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. 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.

The Alliance's investment in Premier Class B units does 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, 2015 and 2014 resulted in a decrease in the fair value of the related liability of $713 and $4,584, 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. 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 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, 2015 and 2014:

	Alternative Investment	*Derivatives, Net*
July 1, 2013	$ -	$ (8,185)
Total unrealized/realized losses	-	(2,761)
Net investment income	-	343
Additions	14,713	-
June 30, 2014	14,713	(10,603)
Total unrealized/realized gains	6,978	7,718
Net investment income	-	344
Settlements	(6,967)	-
June 30, 2015	$ 14,724	$ (2,541)

NOTE O--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 P--SUBSEQUENT EVENTS

The Alliance and Wellmont Health System (Wellmont) have agreed to exclusively explore the creation of a new, integrated and locally governed health system. Wellmont operates six hospitals and numerous outpatient care sites, serving communities in Northeast Tennessee and Southwest Virginia. Wellmont and the Alliance have filed a letter of intent (LOI) with the Tennessee Department of Health, indicating the organizations will submit an application for a Certificate of Public Advantage (COPA). The two organizations have submitted a similar letter of intent with the Southwest Virginia Health Authority, signaling their intent to request approval by the commonwealth of the anticipated cooperative agreement between the two systems. A COPA in Tennessee and the cooperative agreement approval process in Virginia will allow Wellmont and the Alliance to merge, with the states actively supervising the proposed new health system to ensure it complies with the provisions of the COPA intended to contain costs and sustain high quality, affordable care. The two organizations are in the process of finalizing a definitive agreement. The date for expected completion of the merger has not been set but will not occur before state approval has been granted.

Supplemental Information

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets
(Smyth County Community Hospital and Subsidiary and Norton Community Hospital and Subsidiaries)
(Dollars in Thousands)

June 30, 2015

	Smyth County Community Hospital and Subsidiary	*Norton Community Hospital and Subsidiaries*
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,940	$ 6,798
Patient accounts receivable, less estimated allowances for uncollectible accounts	6,295	11,137
Other receivables, net	156	310
Inventories and prepaid expenses	1,079	2,061
Estimated amounts due from third-party payers, net	793	292
TOTAL CURRENT ASSETS	11,263	20,598
INVESTMENTS, less amounts required to meet current obligations	24,807	30,451
PROPERTY, PLANT AND EQUIPMENT, net	67,550	50,275
OTHER ASSETS		
Net deferred financing, acquisition costs and other charges	139	210
Other assets	741	-
TOTAL OTHER ASSETS	880	210
	$ 104,500	$ 101,534

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, 2015

	Smyth County Community Hospital and Subsidiary	Norton Community Hospital and Subsidiaries
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	$ 12	$ 15
Current portion of long-term debt and capital lease obligations	134	110
Accounts payable and accrued expenses	2,323	6,245
Accrued salaries, compensated absences and amounts withheld	2,116	4,388
Payables to affiliates, net	342	89
TOTAL CURRENT LIABILITIES	4,927	10,847
OTHER LIABILITIES		
Long-term debt and capital lease obligations, less current portion	15,830	20,985
Estimated professional liability self-insurance	442	632
Other long-term liabilities	1,178	8,200
TOTAL LIABILITIES	22,377	40,664
NET ASSETS		
Unrestricted net assets	82,114	60,734
Temporarily restricted net assets	9	136
TOTAL NET ASSETS	82,123	60,870
	$ 104,500	$ 101,534

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, 2015

	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	$ 48,370	$ 78,667
Provision for bad debts	(5,332)	(8,546)
Net patient service revenue	43,038	70,121
Net investment gain	651	746
Other revenue, gains and support	1,745	2,576
TOTAL REVENUE, GAINS AND SUPPORT	45,434	73,443
Expenses and losses:		
Salaries and wages	17,289	23,681
Physician salaries and wages	257	6,043
Contract labor	170	567
Employee benefits	4,365	8,965
Fees	9,050	8,326
Supplies	5,349	8,793
Utilities	978	1,286
Other	4,348	7,753
Depreciation	4,289	4,489
Amortization	8	30
Interest and taxes	156	257
TOTAL EXPENSES AND LOSSES	46,259	70,190
EXCESS (DEFICIT) OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	(825)	3,253
Pension and postretirement liability adjustments	-	(305)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(825)	2,948

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, 2015

	Smyth County Community Hospital and Subsidiary	*Norton Community Hospital and Subsidiaries*
TEMPORARILY RESTRICTED NET ASSETS:		
Restricted grants and contributions	8	134
Net assets released from restrictions	(8)	(160)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	(26)
INCREASE (DECREASE) IN TOTAL NET ASSETS	(825)	2,922
NET ASSETS, BEGINNING OF YEAR	82,948	57,948
NET ASSETS, END OF YEAR	$ 82,123	$ 60,870

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet
(Obligated Group and Other Entities)
(Dollars in Thousands)

June 30, 2015

	Obligated Group	Other Entities	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 47,025	$ 32,689	$ -	$ 79,714
Current portion of investments	19,598	-	-	19,598
Patient accounts receivable, less estimated allowance for uncollectible accounts	134,777	27,479	-	162,256
Other receivables, net	17,873	15,413	-	33,286
Inventories and prepaid expenses	25,427	8,542	-	33,969
TOTAL CURRENT ASSETS	244,700	84,123	-	328,823
INVESTMENTS, less amounts required to meet current obligations	458,373	236,169	-	694,542
EQUITY IN AFFILIATES	351,724	-	(351,724)	-
PROPERTY, PLANT AND EQUIPMENT, net	614,870	232,219	-	847,089
OTHER ASSETS				
Goodwill	152,600	3,996	-	156,596
Net deferred financing, acquisition costs and other charges	23,504	1,251	-	24,755
Other assets	44,738	8,302	-	53,040
TOTAL OTHER ASSETS	220,842	13,549	-	234,391
	$ 1,890,509	$ 566,060	$ (351,724)	$ 2,104,845

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet – Continued
(Obligated Group and Other Entities)
(Dollars in Thousands)

June 30, 2015

	Obligated Group	*Other Entities*	*Eliminations*	*Total*
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accrued interest payable	$ 18,125	$ 34	$ -	$ 18,159
Current portion of long-term debt and capital lease obligations	22,040	18,246	-	40,286
Accounts payable and accrued expenses	80,408	19,893	-	100,301
Accrued salaries, compensated absences and amounts withheld	54,519	17,547	-	72,066
Payables to (receivables from) affiliates, net	15,314	(15,314)	-	-
Estimated amounts due to third-party payers, net	3,909	872	-	4,781
TOTAL CURRENT LIABILITIES	194,315	41,278	-	235,593
OTHER LIABILITIES				
Long-term debt and capital lease obligations, less current portion	1,012,167	19,494	-	1,031,661
Estimated fair value of derivatives, net	2,541	-	-	2,541
Estimated professional liability self-insurance	7,362	1,099	-	8,461
Other long-term liabilities	35,176	3,507	-	38,683
TOTAL LIABILITIES	1,251,561	65,378	-	1,316,939
NET ASSETS				
Unrestricted net assets				
Mountain States Health Alliance	583,287	344,360	(344,360)	583,287
Noncontrolling interests in subsidiaries	42,160	143,222	5,736	191,118
TOTAL UNRESTRICTED NET ASSETS	625,447	487,582	(338,624)	774,405
Temporarily restricted net assets				
Mountain States Health Alliance	13,303	12,966	(12,966)	13,303
Noncontrolling interests in subsidiaries	71	7	(7)	71
TOTAL TEMPORARILY RESTRICTED NET ASSETS	13,374	12,973	(12,973)	13,374
Permanently restricted net assets	127	127	(127)	127
TOTAL NET ASSETS	638,948	500,682	(351,724)	787,906
	$ 1,890,509	$ 566,060	$ (351,724)	$ 2,104,845

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Operations
(Obligated Group and Other Entities)
(Dollars in Thousands)

Year Ended June 30, 2015

	Obligated Group	*Other Entities*	*Eliminations*	*Total*
Revenue, gains and support:				
Patient service revenue, net of contractual allowances and discounts	$ 925,979	$ 203,883	$ (12,908)	$ 1,116,954
Provision for bad debts	(104,724)	(22,795)	-	(127,519)
Net patient service revenue	821,255	181,088	(12,908)	989,435
Premium revenue	-	32,184	-	32,184
Net investment gain	12,486	4,530	-	17,016
Net derivative gain	13,195	695	-	13,890
Other revenue, gains and support	27,244	97,465	(88,138)	36,571
Equity in net gain of affiliates	716	10,275	(10,991)	-
TOTAL REVENUE, GAINS AND SUPPORT	874,896	326,237	(112,037)	1,089,096
Expenses:				
Salaries and wages	284,643	67,093	(6,581)	345,155
Physician salaries and wages	64,838	71,222	(55,781)	80,279
Contract labor	3,101	2,913	(598)	5,416
Employee benefits	66,881	17,443	(7,018)	77,306
Fees	97,754	35,093	(12,156)	120,691
Supplies	146,516	29,660	(126)	176,050
Utilities	12,981	3,798	(4)	16,775
Medical Costs	-	30,566	(12,183)	18,383
Other	61,323	26,524	(6,370)	81,477
Depreciation	51,307	15,903	-	67,210
Amortization	1,488	69	-	1,557
Interest and taxes	41,599	2,098	-	43,697
TOTAL EXPENSES	832,431	302,382	(100,817)	1,033,996
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ 42,465	$ 23,855	$ (11,220)	$ 55,100

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Changes in Net Assets (Obligated Group and Other Entities) (Dollars in Thousands)

Year Ended June 30, 2015

	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	$ 41,008	$ 1,457	$ 42,465	$ 13,832	$ 10,023	$ 23,855	$ (11,220)	$ 55,100
Pension and other defined benefit plan adjustments	(178)	(152)	(330)	(207)	(206)	(413)	413	(330)
Net assets released from restrictions used for the purchase of property, plant and equipment	478	-	478	478	-	478	(478)	478
Repurchases of noncontrolling interests, net	-	(1,000)	(1,000)	-	(14)	(14)	-	(1,014)
Distributions to noncontrolling interests	-	-	-	(458)	(355)	(813)	458	(355)
Net asset transfers	-	-	-	912	2,372	3,284	(3,284)	-
INCREASE IN UNRESTRICTED NET ASSETS	41,308	305	41,613	14,557	11,820	26,377	(14,111)	53,879
TEMPORARILY RESTRICTED NET ASSETS:								
Restricted grants and contributions	3,663	69	3,732	3,172	7	3,179	(3,179)	3,732
Net assets released from restrictions	(2,564)	(82)	(2,646)	(2,093)	(5)	(2,098)	2,098	(2,646)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	1,099	(13)	1,086	1,079	2	1,081	(1,081)	1,086
INCREASE IN TOTAL NET ASSETS	42,407	292	42,699	15,636	11,822	27,458	(15,192)	54,965
NET ASSETS, BEGINNING OF YEAR	554,310	41,939	596,249	341,817	131,407	473,224	(336,532)	732,941
NET ASSETS, END OF YEAR	$ 596,717	$ 42,231	$ 638,948	$ 357,453	$ 143,229	$ 500,682	$ (351,724)	$ 787,906

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 information includes 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*

MOUNTAIN STATES HEALTH ALLIANCE

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

MOUNTAIN STATES
HEALTH ALLIANCE

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

MOUNTAIN STATES
HEALTH ALLIANCE

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

Mountain States Health Alliance

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

MOUNTAIN STATES
HEALTH ALLIANCE

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

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

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

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 : Info Center : Press Releases

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's rating definitions and the terms of use of such ratings are available on the agency's public site, '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.

FitchRatings

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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Additional information is available at 'www.fitchratings.com'.

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)

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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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Additional information is available at 'www.fitchratings.com'

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

FitchRatings

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.

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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)

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FitchRatings

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)

FitchRatings

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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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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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FitchRatings

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)

CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.

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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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Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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)

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)

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 Ratings

Fitch Affirms Mountain States Health Alliance (TN) Revs at 'BBB+'; Outlook Stable

Fitch Ratings-New York-12 February 2014: 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;
--$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.

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
MSHA covenants to provide annual and quarterly financial and operational disclosure to EMMA.

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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
(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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Fitch Affirms Mountain States Health Alliance (TN) Revs at 'BBB+'; Outlook Stable

Ratings Endorsement Policy
12 Feb 2014 2:23 PM (EST)

Fitch Ratings-New York-12 February 2014: 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;
--$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.

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).

Applicable Criteria and Related Research:
U.S. Nonprofit Hospitals and Health Systems Rating Criteria

Additional Disclosure
Solicitation Status

TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE '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. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

FitchRatings

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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Additional information is available at 'www.fitchratings.com'.

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)

THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

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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)

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.

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

CONTACTS

Obligor: Marvin Eichorn, Senior Vice President and Chief Financial Officer, Mountain States Health Alliance (423) 431-1017

Underwriter: Jeff Newhams, Managing Director, BofA Merrill Lynch (212) 449-0641

Financial Advisor: Steve Pischke, President, The Public Advisory Corporation (540) 687-6755

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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MOODY'S INVESTORS SERVICE

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.

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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

Obligor: Marvin Eichorn, Senior Vice President and Chief Financial Officer, Mountain States Health Alliance (423) 431-1017

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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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 3TaAa/ leV	MaI G$ 5B 9
Sale Amount L90Q,000,000	
Expected Sale Date 0W2W90	
Rating Description Joint YeRault Mnalysis	

Opinion

NEK ' v g f , Sep 2W 2090 -- $ oody(s 5n) estors Ser) ice has assibned MaI 3on z atch Ror doz nbradeVG$ 5B 9 ratinb to the Health and Educational Facilities Board oR City oR Johnson City, TN Hospital g e) enue Bonds 3$ ountain States Health MllianceV Series 2007 B-2 3the BondsV

g MT5N8 g MT5v NMkE

The lonb-terw ratinb is / ased on a mint deRault analysis 3JYMVz hich reRects $ oody(s approach to ratinb mintly supported transactions. The JYM ratinb is / ased upon the lonb-terw ratinb oR; NC BanP, National Mssociation 3BanPVas pro) ider oR the letter oR credit 3kv CVx the underlyinb ratinb oR the Bondsx and the structure and lebal protections oR the transaction z hich ensures tiwely de/ t ser) ice paywents to in) estors. The tiwely paywent oR purchase price is reRected in the short-terw ratinb oR the Bonds. The short-terw ratinb oR the Bonds is / ased upon the short-terw ratinb oR the BanP as pro) ider oR the letter oR credit.

; NC BanP, National Mssociation is currently rated M9 Ror lonb-terw other senior o/ libations 3v Sv Vand ; riwe-9 Ror short-terw v Sv . The lonb-terw ratinb oR the BanP is currently on z atch Ror doz nbrade. $ oody(s waintains Baa9 underlyinb ratinb on the Bonds.

Since a loss to in) estors z ould occur only iR/ oth the BanP and $ ountain States Health Mlliance 3the Borroz erV deRault in paywent, $ oody(s has assibned the lonb-terw portion oR the ratinb / ased upon the mint pro/ a/ ility oR deRault / y / oth parties. 5n deterwininb the mint pro/ a/ ility oR deRault, $ oody(s considers the le) el oR deRault dependence / etz een the BanP and the Borroz er. $ oody(s has deterwined that there is a hibh le) el oR deRault dependence / etz een the BanP and the Borroz er. Ms a result, the mint pro/ a/ ility oR deRault Ror the BanP and the Borroz er results in a credit risP consistent z ith a JYM ratinb oR MaI 3on z atch Ror doz nbradeV Ror the Bonds.

5nterest g ate $ odes and ; aywent

The Bonds z ill / ear interest in a z eePly rate wode and interest z ill / e paid on the Rrst / usiness day oR each wonth. The / ond trust indenture perwits con) ersion oR the Bonds, in z hole, to a wediuw terw or RAed interest rate period and upon any con) ersion the Bonds z ill / e su/ mct to wandatory purchase. The ratinb applies to the Bonds / earinb interest in the z eePly period only.

Mdditional Bonds

No additional / onds shall / e issued under the / ond trust indenture.

Floz oRFunds

The trustee is instructed to draz under the kv C on or / eRore j 400 p.w., Nez ' orP City tiwe, on the / usiness day prior to any principal and interest paywent date, in accordance z ith the kv C so as to recei) e woneys on the neAt / usiness day in awount suRRcient Ror the paywent in Rull oRthe principal and interest due on the Bonds. 5Rthe BanP Rails to honor a draz under the applica/ le kv C, the trustee shall iwwediately notiRy the Borroz er and dewand paywent oRsuch awount. The trustee is also instructed to draz under the kv C / y 994 0 a.w., Nez ' orP City tiwe, on each purchase date to the eAtent rewarPetinb proceeds are insuRRcient. Bonds z hich are purchased / y the BanP due to a Railed rewarPetinb are held / y the trustee and z ill not / e released until the trustee has recei) ed conRrwation Row the BanP statinb that the kv C has / een reinstated in the awount oRthe purchase price draz n Ror such Bonds.

ketter oRCredit

The kv C is si: ed Ror Rull principal plus I 7 days oRinterest at the waAiwuw rate applica/ le to the Bonds 392%V calculated / ased on I 60 days year and z ill pro) ide co) erabe Ror the Bonds z hile they / ear interest in the z eePly rate wode.

Yraz s on the ketter oRCredit

ConRorwinb draz s Ror principal and interest presented to the BanP at or / eRore j 400 p.w., ; itts/ urbh, ; Mtiwe, on a / usiness day, z ill / e honored / y the BanP no later than 24 0 p.w., ; itts/ urbh, ; Mtiwe, on the neAt / usiness day. ConRorwinb draz s Ror purchase price presented to the BanP at or / eRore 92400 noon, ; itts/ urbh, ; Mtiwe, on a / usiness day, z ill / e honored / y such BanP no later than 24 0 p.w., ; itts/ urbh, ; Mtiwe, on such / usiness day.

Su/ stitution oRthe ketter oRCredit

The Bonds z ill / e su/ Rect to wandatory tender on the RRth 3CthV/ usiness day prior to su/ stitution oRthe kv C. Yraz s Ror purchase price upon the su/ stitution z ill / e wade under the eAistinb kv C and the eAistinb kv C z ill not / e surrendered to the BanP Ror cancellation until aRter such tender draz is honored.

g einstatewent oR5nterest Yraz s

Yraz s wade under the kv C Ror interest shall / e autowatically reinstated at the close oR/ usiness on the date oR paywent oRsuch interest draz inb unless the trustee recei) es Row the BanP a notice / y j 400 p.w. on such paywent date statinb that the BanP has not / een reiw/ ursed Ror such draz inb or that an e) ent oRdeRault under the reiw/ ursewent abreewent has occurred. Dpon receipt oRsuch notice the trustee z ill iwwediately declare the principal oRand accrued interest on the Bonds due and paya/ le and interest on such Bonds z ill cease to accrue on the day it / ecowes paya/ le, z hich day shall / e one / usiness day aRter declaration oRacceleration.

g eiw/ ursewent Mbreewent YeRaults

Dpon an e) ent oRdeRault under the reiw/ ursewent abreewent, the BanP way direct the trustee to accelerate the Bonds. Dpon receipt oRsuch notice, the trustee z ill declare the principal oRand accrued interest on the Bonds iwwediately due and paya/ le. 5nterest z ill cease to accrue one / usiness day Rolloz inb the date on z hich the Bonds are declared iwwediately due and paya/ le. Dpon receipt oRsuch notice the trustee z ill iwwediately declare the principal oRand accrued interest on the Bonds due and paya/ le and interest on such Bonds z ill cease to accrue on the day it / ecowes paya/ le, z hich day shall / e one / usiness day aRter declaration oRacceleration.

Bond 5ndenture E) ents oRYeRault g elated to ; aywent

Dpon a Railure to pay z hen due the principal or interest or the purchase price on the Bonds, the trustee way, and at the z ritten reUuest oRthe BanP or the holders oRwore than tz o-thirds 32GVin abbrebate principal awount oRthe outstandinb Bonds shall declare the principal oRand accrued interest on the Bonds due and paya/ le and interest on such Bonds z ill cease to accrue on the day it / ecowes paya/ le, z hich day shall / e one / usiness day aRter declaration oRacceleration.

EApiration GTerwination oRthe ketter oRCredit

The kv C shall terwinate upon the earliest to occur oR43VSeptew/ er 2W 209I , the stated eApiration datex3iVthe / usiness day Rolloz inb con) ersion oRan interest rate oRthe Bonds to a rate other than a z eePly interest ratex3iiV the day z hich is FFFeen 39OVdays aFer trustee(s receipt oRa notice Row the BanP statinb that an e) ent oRdeRault under the reiw/ ursewent abreewent has occurred and directinb acceleration oRthe Bonds, 3) Vthe date an acceleration draz inb is honored / y the BanPx3) Vreceipt / y the BanP oRa certiFcate Row the trustee statinb that 3MVno Bonds rewain outstandinb and all draz s under the kv C ha) e / een wade and honored, or 3BVa su/ stitute kv C has / een issuedxor 3) iVthe date on z hich a stated waturity draz inb that causinb the stated awount oRthe kv C to / e reduced to L0 is honored / y the BanP.

v ptional Tenders

Bondholders way optionally tender their Bonds on any / usiness day durinb the z eePly rate wode z ith F) e 3OV / usiness days prior z ritten notice to the trustee and the rewarPetinb abent.

$ andatory ; urchases

The Bonds are su/ rect to wandatory purchase on43Veach interest rate con) ersion date 3iiVany interest reset date, 3iiiVthe FFFh 3OthV/ usiness day prior to the eFFecti) e date oRan alternate letter oRcredit or 3) Vthe second 32ndV / usiness day prior to the eApiration date oRthe letter oRcredit.

K hat Could Chanbe the g atinb-Dp

konb-Terw4the lonb-terw ratinb on the applica/ le series oRBonds could / e upbraded iRthe lonb-terw v Sv ratinb oRthe BanP or the lonb-terw ratinb oRthe Borroz er z as upbraded, or iR

there z as a decrease in the le) el oRdeRault dependence / etz een the BanP and the Borroz er.

Short-Terw4NG/M

K hat Could Chanbe the g atinb-Yoz n

konb-Terw4the lonb-terw ratinb on the Bonds could / e loz ered iRthe lonb terw v Sv ratinb oRthe BanP or the lonb-terw ratinb oRthe Borroz er z as doz nbraded, or iRthere is an increase in the le) el oRdeRault dependence / etz een the BanP and the Borroz er.

Short-Terw4the short-terw ratinb on the Bonds z ould / e loz ered iRthe short-terw v Sv ratinb, on the BanP z as doz nbraded.

Contacts

g ewarPetinb Mbent4BanP oRMwerica $ errill kynch

Trustee4The BanP oRNez ' orP $ ellon Trust Cowpany

The principal wethodolobies used in ratinb this issue z ere $ oody(s g atinb $ ethodoloby ketter oRCredit Supported Transactions pu/ lished in Mubust 200Oand Mpplyinb 8 lo/ al Joint YeRault Mnalysis to ketter oRCredit BacPed Transactions in the D.S. ; u/ lic Finance Sector pu/ lished in Septew/ er 2090. v ther wethodolobies and Ractors that way ha) e / een considered in the process oRratinb this issue can also / e Round on $ oody(s z e/ site.

g E8 DkMTv g ' Y5SCkv SDg ES

5nRorwation sources used to prepare the credit ratinb are the Rolloz inb4parties in) ol) ed in the ratinbs and pu/ lic inRorwation.

$ oody(s 5n) estors Ser) ice considers the Uuality oRinRorwation a) aila/ le on the issuer or o/ libation satisRactory Ror the purposes oRassibninb a credit ratinb.

$ v v Y' (S adopts all necessary weasures so that the inRorwation it uses in assibninb a credit ratinb is oRsuFFcient Uuality and Row sources $ v v Y' (S considers to / e relia/ le includinb, z hen appropriate, independent third-party sources. Hoz e) er, $ v v Y' (S is not an auditor and cannot in e) ery instance independently) eriRy or) alidate inRorwation recei) ed in the ratinb process.

; lease see ratinbs ta/ on the issuerGentity pabe on $ oodys.cow Ror the last ratinb action and the ratinb history.

The date on z hich sowe Credit g atinbs z ere FFst released boes / acP to a tiwe / eRore $ oody(s 5n) estors Ser) ice(s Credit g atinbs z ere Rully dibiti: ed and accurate data way not / e a) aila/ le. ConseUuently, $ oody(s

5n) estors Ser) ice pro) ides a date that it / elie) es is the wost relia/ le and accurate / ased on the inRorwation that is a) aila/ le to it. ; lease see the ratinbs disclosure pabe on our z e/ site z z z .woodys.cow Ror Rurther inRorwation.

; lease see the Credit ; olicy pabe on $ oodys.cow Ror the wethodolobies used in deterwininb ratinbs, Rurther inRorwation on the weaninb oReach ratinb catebory and the deRnition oRdeRault and reco) ery.

Analysts

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8 roup Japan 8 .f ., z hich is z holly-oz ned / y $ oody© v) erseas Holdinbs 5nc., a z holly-oz ned su/ sidiary oR $ Cv . $ oody© SF Japan f .f . 3$ SFJ"Vis a z holly-oz ned credit ratinb abency su/ sidiary oR$ Jf f . $ SFJ is not a Nationally g ecobni: ed Statistical g atinb v rbani: ation 3Ng Sg v "V. ThereRore, credit ratinbs assibned / y $ SFJ are Non-Ng Sg v Credit g atinbs. Non-Ng Sg v Credit g atinbs are assibned / y an entity that is not a Ng Sg v and, conseUuently, the rated o/ libation z ill not UualiRy Ror certain types oR treatwent under D.S. laz s. $ Jf f and $ SFJ are credit ratinb abencies rebistered z ith the Japan Financial Ser) ices Mbency and their rebistration nuw/ ers are FSM Cowwissioner 3g atinbsVNo. 2 and I respecti) ely.

$ Jf f or $ SFJ 3as applica/ leVhere/ y disclose that wost issuers oR de/ t securities 3includinb corporate and wunicipal / onds, de/ entures, notes and cowwercial paperVand preRerred stocP rated / y $ Jf f or $ SFJ 3as applica/ leVha) e, prior to assibnwent oR any ratinb, abreed to pay to $ Jf f or $ SFJ 3as applica/ leVRor appraisal and ratinb ser) ices rendered / y it Rees ranbinb Rrow J; ' 200,000 to approAiwately J; ' I O0,000,000.
$ Jf f and $ SFJ also waintain policies and procedures to address Japanese rebulatory reUuirewents.

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

NE2 07 - 3, Sep A/ , AVMV II Goody1s $n5estors Ser5ice has assi8ned 9aML on Oatch Vor doOn8radeYRKG$ M ratin8 to the Health and Educational Facilities Board oWCity oWJohnson City, TN Hospital - e5enue Bonds LGountain States Health 9llianceYSeries AVVv BIMLthe BondsY

- 9T$N' - 9T$7 N9gE

The lon8Iterf ratin8 is (ased on a)oint deVault analysis LJb 9YOhich reVects Goody1s approach to ratin8)ointly supported transactions. The Jb 9 ratin8 is (ased upon the lon8Iterf ratin8 oWz .S. Bank National 9ssociation LBankYas pro5ider oWthe letter oWcredit Lg7 CYwthe underlyin8 ratin8 oWthe Bondswand the structure and le8al protections oWthe transaction Ohich ensures tif ely de(t ser5ice payf ents to in5estors. The tif ely payf ent oW purchase price is reVected in the shortIterf ratin8 oWthe Bonds. The shortIterf ratin8 oWthe Bonds is (ased upon the shortIterf ratin8 oWthe Bank as pro5ider oWthe letter oWcredit.

z .S. Bank National 9ssociation is currently rated 9aMVor lon8Iterf other senior o(li8ations L7 S7 Yand mrif eIMVor shortIterf 7 S7 . The lon8Iterf ratin8 oWthe Bank is currently on Oatch Vor doOn8rade. Goody1s f aintains BaaM underlyin8 ratin8 on the Bonds.

Since a loss to in5estors Oould occur only iW(oth the Bank and Gountain States Health 9lliance Lthe BorroOerY deVault in payf ent, Goody1s has assi8ned the lon8Iterf portion oWthe ratin8 (ased upon the)oint pro(a(ility oW deVault (y (oth parties. $n deterf inin8 the)oint pro(a(ility oWdeVault, Goody1s considers the le5el oWdeVault dependence (etOeen the Bank and the BorroOer. Goody1s has deterf ined that there is a hi8h le5el oWdeVault dependence (etOeen the Bank and the BorroOer. 9s a result, the)oint pro(a(ility oWdeVault Vor the Bank and the BorroOer results in a credit risk consistent Oith a Jb 9 ratin8 oW9aML on Oatch Vor doOn8radeYVor the Bonds.

$nterest - ate Godes and mayf ent

The Bonds Oill (ear interest in a Oeekly rate f ode and interest Oill (e paid on the Virst (usiness day oWeach f onth. The (ond trust indenture perf its con5ersion oWthe Bonds, in Ohole, to a f ediuf terf or Vi;ed interest rate period and upon any con5ersion the Bonds Oill (e su( )ect to f andatory purchase. The ratin8 applies to the Bonds (earin8 interest in the Oeekly period only.

9dditional Bonds

No additional (onds shall (e issued under the (ond trust indenture.

FloO oWFunds

The trustee is instructed to draO under the g7 C on or (eVore PXVV p.f ., NeO 0ork City tif e, on the (usiness day prior to any principal and interest payf ent date, in accordance Oith the g7 C so as to recei5e f oneys on the ne; t (usiness day in af ount suVVicient Vor the payf ent in Vull oWthe principal and interest due on the Bonds. $Vthe Bank Vails to honor a draO under the applica(le g7 C, the trustee shall if f ediately notiVy the BorroOer and def and payf ent oWsuch af ount. The trustee is also instructed to draO under the g7 C (y MMj V a.f ., NeO 0ork City tif e, on each purchase date to the e; tent ref arketin8 proceeds are insuWWcient. Bonds Ohich are purchased (y the Bank due to a Wailed ref arketin8 are held (y the trustee and Oill not (e released until the trustee has recei5ed conWirf ation Wrof the Bank statin8 that the g7 C has (een reinstated in the af ount oWthe purchase price draOn Wor such Bonds.

getter oWCredit

The g7 C is si4ed Wor Wull principal plus j v days oWinterest at the f a; if uf rate applica(le to the Bonds LMA: Y calculated (ased on j %V days year and Oill pro5ide co5era8e Wor the Bonds Ohile they (ear interest in the Oeekly rate f ode.

b raOs on the getter oWCredit

ConWorf in8 draOs Wor principal and interest presented to the Bank at or (eWore j xVV p.f ., St. gouis, Gissouri tif e, on a (usiness day, Oill (e honored (y the Bank no later than Mj V p.f ., St. gouis, Gissouri tif e, on the ne; t (usiness day. ConWorf in8 draOs Wor purchase price presented to the Bank at or (eWore MMxVV a.f ., St. gouis, Gissouri tif e, on a (usiness day, Oill (e honored (y such Bank no later than Mj V p.f ., St. gouis, Gissouri tif e, on such (usiness day.

Su(stitution oWthe getter oWCredit

The Bonds Oill (e su( )ect to f andatory tender on the WiWth L6thY(usiness day prior to any su(stitution oWthe g7 C. b raOs Wor purchase price upon the su(stitution Oill (e f ade under the e; istin8 g7 C and the e; istin8 g7 C Oill not (e surrendered to the Bank Wor cancellation until aWter such tender draO is honored.

- einstatef ent oW$nterest b raOs

b raOs f ade under the g7 C Wor interest shall (e autof atically reinstated at the close oW(usiness on the date oW payf ent oWsuch interest draOin8 unless the trustee recei5es Wrof the Bank a notice (y PxVV p.f . on such payf ent date statin8 that the Bank has not (een reif (ursed Wor such draOin8 or that an e5ent oWdeWault under the reif (ursef ent a8reef ent has occurred. z pon receipt oWsuch notice the trustee Oill if f ediately declare the principal oWand accrued interest on the Bonds due and paya(le and interest on such Bonds Oill cease to accrue on the day it (ecof es paya(le, Ohich day shall (e one (usiness day aWter declaration oWacceleration.

- eif (ursef ent 9 8reef ent b eWaults

z pon an e5ent oWdeWault under the reif (ursef ent a8reef ent, the Bank f ay direct the trustee to accelerate the Bonds. z pon receipt oWsuch notice, the trustee Oill declare the principal oWand accrued interest on the Bonds if f ediately due and paya(le. $nterest Oill cease to accrue one day WolloOin8 the date on Ohich the Bonds are declared if f ediately due and paya(le. z pon receipt oWsuch notice the trustee Oill if f ediately declare the principal oWand accrued interest on the Bonds due and paya(le and interest on such Bonds Oill cease to accrue on the day it (ecof es paya(le, Ohich day shall (e one (usiness day aWter declaration oWacceleration.

Bond $ndenture E5ents oWb eWault - elated to mayf ent

z pon a Wailure to pay Ohen due the principal or interest or the purchase price on the Bonds, the trustee f ay, and at the Oritten reDuest oWthe Bank or the holders oWf ore than tOo thirds LAFj Yin a88re8ate principal af ount oWthe outstandin8 Bonds shall declare the principal oWand accrued interest on the Bonds due and paya(le and interest on such Bonds Oill cease to accrue on the day it (ecof es paya(le, Ohich day shall (e one (usiness day aWter declaration oWacceleration.

E; piration RTerf ination oWthe getter oWCredit

The g7 C shall terf inate upon the earliest to occur oWLiYSeptef (er A/ , AVMJ , the stated e; piration datewLiiYthe (usiness day WolloOin8 con5ersion oWan interest rate oWthe Bonds to a rate other than a Oeekly interest ratewLiiiY the day Ohich is WiWteen LM6Ydays aWter trustee1s receipt oWa notice Wrof the Bank statin8 that an e5ent oWdeWault under the reif (ursef ent a8reef ent has occurred and directin8 acceleration oWthe Bonds, Li5Ythe date an acceleration draOin8 is honored (y the BankwL5Yreceipt (y the Bank oWa certiWicate Wrof the trustee statin8 that L9 Yno Bonds ref ain outstandin8 and all draOs under the g7 C ha5e (een f ade and honored, or LBYa su(stitute g7 C has (een issuedwor L5iYthe date on Ohich a stated f aturity draOin8 that causin8 the stated af ount oWthe g7 C to (e reduced to UV is honored (y the Bank.

7 ptional Tenders

Bondholders f ay optionally tender their Bonds on any (usiness day durin8 the Oeekly rate f ode Oith VV5e L6Y (usiness days prior Oritten notice to the trustee and the ref arketin8 a8ent.

Gandatory murchases

The Bonds are su( )ect to f andatory purchase onxLiYeach interest rate con5ersion date LiiYany interest reset date, LiiiYthe VVth L6thY(usiness day prior to the eVVecti5e date oVan alternate letter oVcredit or Li5Ythe second LAndY (usiness day prior to the e; piration date oVthe letter oVcredit.

2 hat Could Chan8e the - atin8Iz p

gon8ITerf xthe lon8Iterf ratin8 on the applica(le series oVBonds could (e up8raded iVthe lon8Iterf 7 S7 ratin8 oVthe Bank or the lon8Iterf ratin8 oVthe BorroOer Oas up8raded.

ShortITerf xNR9

2 hat Could Chan8e the - atin8Ib oOn

gon8ITerf xthe lon8Iterf ratin8 on the Bonds could (e loOered iVthe lon8 terf 7 S7 ratin8 oVthe Bank or the lon8I terf ratin8 oVthe BorroOer Oas doOn8raded.

ShortITerf xthe shortIterf ratin8 on the Bonds Oould (e loOered iVthe shortIterf 7 S7 ratin8, on the Bank Oas doOn8raded.

Contacts

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TrusteexThe Bank oVNeO 0 ork Gellon Trust Cof pany

The principal f ethodolo8ies used in ratin8 this issue Oere getter oVCredit Supported Transactions pu(lished in 9 u8ust AVV6 and Goody1s 9 pproach to 9 pplyin8 the Joint Support Gethodolo8y to - atin8 getter oVCreditI Supported Bonds pu(lished in Gay AVVj . 7 ther f ethodolo8ies and Vactors that f ay ha5e (een considered in the process oVratin8 this issue can also (e Vound on Goody1s Oe(site.

- E' z g9 T7 - 0 b $SCg7 Sz - ES

$nVorf ation sources used to prepare the credit ratin8 are the VolloOin8xparties in5ol5ed in the ratin8s and pu(lic inVorf ation.

Goody1s $n5estors Ser5ice considers the Duality oVinVorf ation a5aila(le on the issuer or o(li8ation satisVactory Vor the purposes oVf aintainin8 a credit ratin8.

G7 7 b 0 1S adopts all necessary f easures so that the inVorf ation it uses in assi8nin8 a credit ratin8 is oVsuVVicient Duality and Vof sources G7 7 b 0 1S considers to (e relia(le includin8, Ohen appropriate, independent thirdIparty sources. HoOe5er, G7 7 b 0 1S is not an auditor and cannot in e5ery instance independently 5eriVy or 5alidate inVorf ation recei5ed in the ratin8 process.

mlease see ratin8s ta(on the issuerRentity pa8e on Goodys.cof Vor the last ratin8 action and the ratin8 history.

The date on Ohich sof e Credit - atin8s Oere Virst released 8oes (ack to a tif e (eVore Goody1s $n5estors Ser5ice1s Credit - atin8s Oere Vully di8iti4ed and accurate data f ay not (e a5aila(le. ConseDuently, Goody1s $n5estors Ser5ice pro5ides a date that it (elie5es is the f ost relia(le and accurate (ased on the inVorf ation that is a5aila(le to it. mlease see the ratin8s disclosure pa8e on our Oe(site OOO.f oodys.cof Vor Vurther inVorf ation.

mlease see the Credit molicy pa8e on Goodys.cof Vor the f ethodolo8ies used in deterf inin8 ratin8s, Vurther inVorf ation on the f eanin8 oVeach ratin8 cate8ory and the deVinition oVdeVault and reco5ery.

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applica(leYha5e, prior to assi8nf ent oWany ratin8, a8reed to pay to GJ33 or GSFJ Las applica(leYWor appraisal and ratin8 ser5ices rendered (y it Wees ran8in8 Wof Jm0 AVV,VVV to appro; if ately Jm0 j 6V,VVV,VVV.
GJ33 and GSFJ also f aintain policies and procedures to address Japanese re8ulatory reDuiref ents.

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

NE2 07-3, Sep A/, AVMV II Goody1s $n5estors Ser5ice has up8raded to 9aMLon Oatch Vor doOn8radeYRKG$ M Wov 9gRKG$ A ratin8 oWThe Health and Educational Facilities Board oWCity oWJohnson City, TN Hospital -e5enue Bonds LGountain States Health 9llianceYSeries AVVf 9 Lthe BondsYin con(unction Oith the su)stitution oW the current letter oWcredit supportin8 the Bonds pro5ided)y -e8ions Banb Oith an alternate irre5oca)le directIpay letter oWcredit Lz7 CYpro5ided)y k.S. Banb National 9ssociation LBanbY.

-9T$N' -9T$7 N9zE

The lon8Iterv ratin8 is)ased on a (oint deWault analysis LJw9YOhich reWects Goody1s approach to ratin8 (ointly supported transactions. The Jw9 ratin8 is)ased upon the lon8Iterv ratin8 oWthe Banb as pro5ider oWthe letter oW creditmthe underlyin8 ratin8 oWthe Bondsmand the structure and le8al protections oWthe transaction Ohich ensures tiv ely de)t ser5ice payv ents to in5estors. The tiv ely payv ent oWpurchase price is reWected in the shortIterv ratin8 oWthe Bonds. The shortIterv ratin8 oWthe Bonds is)ased upon the shortIterv ratin8 oWthe Banb as pro5ider oWthe letter oWcredit.

k.S. Banb National 9ssociation is currently rated 9aMWor lon8Iterv other senior o)li8ations L7S7Yand ;riv eIMWor shortIterv 7S7. The lon8Iterv ratin8 oWthe Banb is currently on Oatch Wor doOn8rade. Goody1s v aintains BaaM underlyin8 ratin8 on the Bonds.

Since a loss to in5estors Oould occur iW)oth the Banb and Gountain States Health 9lliance Lthe BorroOerYdeWault in payv ent, Goody1s has assi8ned the lon8Iterv portion oWthe ratin8)ased upon the (oint pro)a)ility oWdeWault)y)oth parties. $n deterv inin8 the (oint pro)a)ility oWdeWault, Goody1s considers the le5el oWdeWault dependence)etOeen the Banb and the BorroOer. Goody1s has deterv ined that there is a hi8h le5el oWdeWault dependence)etOeen the Banb and the BorroOer. 9s a result, the (oint pro)a)ility oWdeWault Wor the Banb and the BorroOer results in a credit risb consistent Oith a Jw9 ratin8 oW9aMLon Oatch Wor doOn8radeYWor the Bonds.

$nterest -ate Godes and ;ayv ent

The Bonds Oill continue to)ear interest in a Oeebly rate v ode and interest Oill)e paid on the Wrst)usiness day oW each v onth. The)ond trust indenture perv its con5ersion oWthe Bonds, in Ohole, to a v ediuv terv or WPed interest rate period and upon any con5ersion the Bonds Oill)e su)(ect to v andatory purchase. The ratin8 applies to the Bonds)earin8 interest in the Oeebly period only.

9dditional Bonds

No additional)onds shall)e issued under the)ond trust indenture.

FloO oWFunds

The trustee is instructed to draO under the z7 C on or)eWore xjVV p.v ., NeO 0orb City tiv e, on the)usiness day prior to any principal and interest payv ent date, in accordance Oith the z7 C so as to recei5e v oneys on the nePt) usiness day in av ount suW\Wcient W\r the payv ent in W\ll oW\the principal and interest due on the Bonds. $W\the Banb W\ils to honor a draO under the applica) le z7 C, the trustee shall iv v ediately notiW\ the BorroOer and dev and payv ent oW\such av ount. The trustee is also instructed to draO under the z7 C) y MMjgV a.v ., NeO 0orb City tiv e, on each purchase date to the ePtent rev arbetin8 proceeds are insuW\Wcient. Bonds Ohich are purchased) y the Banb due to a W\iled rev arbetin8 are held) y the trustee and Oill not) e released until the trustee has recei5ed conW\v ation W\ov the Banb statin8 that the z7 C has) een reinstated in the av ount oW\the purchase price draOn W\r such Bonds.

zetter oW\Credit

The z7 C is si4ed W\r W\ll principal plus g: days oW\nterest at the v aPiv uv rate applica) le to the Bonds LMA%Y calculated) ased on g6V days year and Oill pro5ide co5era8e W\r the Bonds Ohile they) ear interest in the Oeebly rate v ode.

wraOs on the zetter oW\Credit

ConW\rv in8 draOs W\r principal and interest presented to the Banb at or) eW\re gjVV p.v ., St. zouis, Gissouri tiv e, on a) usiness day, Oill) e honored) y the Banb no later than MjgV p.v ., St. zouis, Gissouri tiv e, on the nePt) usiness day. ConW\rv in8 draOs W\r purchase price presented to the Banb at or) eW\re MMjVV a.v ., St. zouis, Gissouri tiv e, on a) usiness day, Oill) e honored) y such Banb no later than MjgV p.v ., St. zouis, Gissouri tiv e, on such) usiness day.

Su) stitution oW\the zetter oW\Credit

The Bonds Oill) e su) (ect to v andatory tender on the W\W\h LDthY) usiness day prior to su) stitution oW\the z7 C. wraOs W\r purchase price upon the su) stitution Oill) e v ade under the ePistin8 z7 C and the ePistin8 z7 C Oill not) e surrendered to the Banb W\r cancellation until aW\er such tender draO is honored.

- einstatev ent oW\$nterest wraOs

wraOs v ade under the z7 C W\r interest shall) e autov atically reinstated at the close oW\) usiness on the date oW\payv ent oW\such interest draOin8 unless the trustee recei5es W\ov the Banb a notice) y xjVV p.v . on such payv ent date statin8 that the Banb has not) een reiv) ursed W\r such draOin8 or that an e5ent oW\deW\ult under the reiv) ursev ent a8reev ent has occurred. k pon receipt oW\such notice the trustee Oill iv v ediately declare the principal oW\and accrued interest on the Bonds due and paya) le and interest on such Bonds Oill cease to accrue on the day it) ecov es paya) le, Ohich day shall) e one) usiness day aW\er declaration oW\acceleration.

- eiv) ursev ent 9 8reev ent weW\ults

k pon an e5ent oW\deW\ult under the reiv) ursev ent a8reev ent, the Banb v ay direct the trustee to accelerate the Bonds. k pon receipt oW\such notice, the trustee Oill declare the principal oW\and accrued interest on the Bonds iv v ediately due and paya) le. $nterest Oill cease to accrue one day W\lloOin8 the date on Ohich the Bonds are declared iv v ediately due and paya) le. k pon receipt oW\such notice the trustee Oill iv v ediately declare the principal oW\and accrued interest on the Bonds due and paya) le and interest on such Bonds Oill cease to accrue on the day it) ecov es paya) le, Ohich day shall) e one) usiness day aW\er declaration oW\acceleration.

Bond $ndenture E5ents oW\weW\ult - elated to ; ayv ent

k pon a W\ilure to pay Ohen due the principal or interest or the purchase price on the Bonds, the trustee v ay, and at the Oritten reUuest oW\the Banb or the holders oW\v ore than tOo thirds LARgYin a88re8ate principal av ount oW\the outstandin8 Bonds shall declare the principal oW\and accrued interest on the Bonds due and paya) le and interest on such Bonds Oill cease to accrue on the day it) ecov es paya) le, Ohich day shall) e one) usiness day aW\er declaration oW\acceleration.

EPpiration RTerv ination oW\the zetter oW\Credit

The z7 C shall terv inate upon the earliest to occur oW\LiYSeptev) er A/ , AVMg, the stated ePpiration datemLiiYthe) usiness day W\lloOin8 con5ersion oW\an interest rate oW\the Bonds to a rate other than a Oeebly interest ratemLiiiY the day Ohich is W\W\een LMDYdays aW\er trustee1s receipt oW\a notice W\ov the Banb statin8 that an e5ent oW\deW\ult under the reiv) ursev ent a8reev ent has occurred and directin8 acceleration oW\the Bonds, Li5Ythe date an acceleration draOin8 is honored) y the BanbmL5Yreceipt) y the Banb oW\a certiW\cate W\ov the trustee statin8 that L9Yno Bonds rev ain outstandin8 and all draOs under the z7 C ha5e) een v ade and honored, or LBYa su) stitute z7 C has) een issuedmor L5iYthe date on Ohich a stated v aturity draOin8 that causin8 the stated av ount oWthe z7 C to) e reduced to qV is honored) y the Banb.

7 ptional Tenders

Bondholders v ay optionally tender their Bonds on any) usiness day durin8 the Oeebly rate v ode Oith W5e LDY) usiness days prior Oritten notice to the trustee and the rev arbetin8 a8ent.

Gandatory ; urchases

The Bonds are su) (ect to v andatory purchase onj LiYeach interest rate con5ersion date LiiYany interest reset date, LiiiYthe WWth LDthY) usiness day prior to the eWWcti5e date oWan alternate letter oWcredit or Li5Ythe second LAndY) usiness day prior to the ePpiration date oWthe letter oWcredit.

2 hat Could Chan8e the - atin8I k p

zon8ITerv j the lon8Iterv ratin8 on the applica) le series oWBonds could) e up8raded iWthe lon8Iterv 7 S7 ratin8 oWthe Banb or the lon8Iterv ratin8 oWthe BorroOer Oas up8raded.

ShortITerv j NR9

2 hat Could Chan8e the - atin8IwoOn

zon8ITerv j the lon8Iterv ratin8 on the Bonds could) e loOered iWthe lon8 terv 7 S7 ratin8 oWthe Banb or the lon8I terv ratin8 oWthe BorroOer Oas doOn8raded.

ShortITerv j the shortIterv ratin8 on the Bonds Oould) e loOered iWthe shortIterv 7 S7 ratin8, on the Banb Oas doOn8raded.

Contacts

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Trusteej The Banb oWNeO 0 orb Gellon Trust Cov pany

The principal v ethodolo8ies used in ratin8 this issue Oere Goody1s - atin8 Gethodolo8y zetter oWCredit Supported Transactions pu) lished in 9 u8ust AWWD and 9 pplyin8 ' lo) al Joint deWault 9 nalysis to zetter oWCredit Bacbed Transactions in the k .S. ; u) lic Finance Sector pu) lished in Septev) er AWMV. 7 ther v ethodolo8ies and Wactors that v ay ha5e) een considered in the process oWratin8 this issue can also) e Wound on Goody1s Oe) site.

- E' k z9 T7 - 0 w$SCz7 Sk - ES

$nWorv ation sources used to prepare the credit ratin8 are the WolloOin8j parties in5ol5ed in the ratin8s and pu) lic inWorv ation.

Goody1s $n5estors Ser5ice considers the Uuality oWinWorv ation a5aila) le on the issuer or o) li8ation satisWactory Wor the purposes oWv aintainin8 a credit ratin8.

G7 7 w0 1S adopts all necessary v easures so that the inWorv ation it uses in assi8nin8 a credit ratin8 is oWsuWWcient Uuality and Wrov sources G7 7 w0 1S considers to) e relia) le includin8, Ohen appropriate, independent thirdIparty sources. HoOe5er, G7 7 w0 1S is not an auditor and cannot in e5ery instance independently 5eriWy or 5alidate inWorv ation recei5ed in the ratin8 process.

; lease see ratin8s ta) on the issuerRentity pa8e on Goodys.cov Wor the last ratin8 action and the ratin8 history.

The date on Ohich sov e Credit - atin8s Oere Wirst released 8oes) acb to a tiv e) eWore Goody1s $n5estors Ser5ice1s Credit - atin8s Oere Wully di8iti4ed and accurate data v ay not) e a5aila) le. ConseUuently, Goody1s $n5estors Ser5ice pro5ides a date that it) elie5es is the v ost relia) le and accurate) ased on the inWorv ation that is a5aila) le to it. ; lease see the ratin8s disclosure pa8e on our Oe) site OOO.v oodys.cov Wor Wurther inWorv ation.

; lease see the Credit ; olicy pa8e on Goodys.cov Wor the v ethodolo8ies used in deterv inin8 ratin8s, Wurther inWorv ation on the v eanin8 oWeach ratin8 cate8ory and the deWinition oWdeWault and reco5ery.

Analysts

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NeO 0orb, N0 MVV:
k S9

9ll inWorv ation contained herein is o) tained) y G7 7 w0’S Wrov sources) elie5ed) y it to) e accurate and relia) le. Because oWthe possi) ility oWhuv an or v echanical error as Oell as other Wactors, hoOe5er, all inWorv ation contained herein is pro5ided “9S $S” Oithout Oarranty oWany bind. G7 7 w0’S adopts all necessary v easures so that the inWorv ation it uses in assi8nin8 a credit ratin8 is oWsuWWcient Uuality and Wrov sources G7 7 w0’S considers to) e relia) le includin8, Ohen appropriate, independent thirdIparty sources. HoOe5er, G7 7 w0’S is not an auditor and cannot in e5ery instance independently 5eriWy or 5alidate inWorv ation recei5ed in the ratin8 process or in preparin8 the Goody’s ; u) lications.

To the ePtent perv itted) y laO, G7 7 w0’S and its directors, oWWcers, ev ployees, a8ents, representati5es, licensors and suppliers disclaiv lia) ility to any person or entity Wor any indirect, special, conseUuential, or incidental losses or dav a8es Ohatsoe5er arisin8 Wrov or in connection Oith the inWorv ation contained herein or the use oWor ina) ility to use any such inWorv ation, e5en iWG7 7 w0’S or any oWits directors, oWWcers, ev ployees, a8ents, representati5es, licensors or suppliers is ad5ised in ad5ance oWthe possi) ility oWsuch losses or dav a8es, includin8) ut not liv ited toj LaYany loss oWpresent or prospecti5e proWts or L) Yany loss or dav a8e arisin8 Ohere the rele5ant Wnancial instruv ent is not the su) (ect oWa particular credit ratin8 assi8ned) y G7 7 w0’S.

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For 9ustralia onlyj 9ny pu) lication into 9ustralia oWthis docuv ent is pursuant to the 9ustralian Financial Ser5ices zicense oWG7 7 w0’S aWWliate, Goody’s $n5estors Ser5ice ; ty ziv ited 9BN 6MVVg g/ / 6D: 9FSz gg6/ 6/ andRor Goody’s 9nalytics 9ustralia ; ty ztd 9BN / x MVDMg6 / : A9FSz gf gD6/ Las applica) leY. This docuv ent is intended to) e pro5ided only to “Oholesale clients” Oithin the v eanin8 oWsection : 6M oWthe Corporations 9ct AVVM. By continuin8 to access this docuv ent Wrov Oithin 9ustralia, you represent to G7 7 w0’S that you are, or are accessin8 the docuv ent as a representati5e oWa “Oholesale client” and that neither you nor the entity you represent Oill directly or indirectly dissev inate this docuv ent or its contents to “retail clients” Oithin the v eanin8 oW section : 6M oWthe Corporations 9ct AVVM. G7 7 w0’S credit ratin8 is an opinion as to the creditOorthiness oWa de) t o) li8ation oWthe issuer, not on the eUuity securities oWthe issuer or any Worv oWsecurity that is a5aila) le to retail clients. $t Oould) e dan8erous Wor “retail clients” to v abe any in5estv ent decision) ased on G7 7 w0’S credit ratin8. $WWin dou) t you should contact your Wnancial or other proWessional ad5iser.

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GJ33 or GSFJ Las applica) leYhere) y disclose that v ost issuers oWde) t securities Lincludin8 corporate and v unicipal) onds, de) entures, notes and cov v ercial paperYand preWerred stocb rated) y GJ33 or GSFJ Las applica) leYha5e, prior to assi8nv ent oWany ratin8, a8reed to pay to GJ33 or GSFJ Las applica) leYWor appraisal and ratin8 ser5ices rendered) y it Wees ran8in8 Wov J; 0AVV,VVV to approPiv ately J; 0gDV,VVV,VVV.
GJ33 and GSFJ also v aintain policies and procedures to address Japanese re8ulatory reUuirev ents.

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

NE2 07 - 3, 7 ct A/ , AVMV II Goody1s $n5estors Ser5ice has a8r9 ed LaO/VG$R MratinK currently assiKned to the Health and Educational Facilities Board o8City o8Johnson City, TN Hospital - e5enue Bonds 'Gountain States Health LlliancevSeries AVVg BIO'the Bondsvin connection f ith the application o8the (oint de8ault analysis 9 ethodoloKy.

- LT$NR - LT$7 NL) E

The lonK ter9 ratinK f hich f as pre5iously based on the lonKlter9 ratinK o8the Banz f ill nof be based on a (oint de8ault analysis 'Jk Lv f hich re8ects Goody1s approach to ratinK (ointly supported transactions. The Jk L ratinK is based upon the lonKlter9 ratinK o8Giwuho Corporate Banz,) Tk 'Banzv as pro5ider o8the letter o8credit ') 7 Cvm the underlyinK ratinK o8the Bondsm and the structure and leKal protections o8the transaction f hich ensures ti9 ely debt ser5ice pay9 ents to in5estors. The ti9 ely pay9 ent o8purchase price is re8ected in the shortlter9 ratinK o8 the Bonds. The shortlter9 ratinK o8the Bonds is based upon the shortlter9 ratinK o8the Banz as pro5ider o8the letter o8credit.

Giwuho Corporate Banz,) Tk is currently rated LaO8or lonKlter9 banz deposits and ; ri9 elM8or shortlter9 banz deposits. Goody1s 9 aintains BaaMunderlyinK ratinK on the Bonds.

Since a loss to in5estors f ould occur only i8both the Banz and Gountain States Health Llliance 'the Borrof erv de8ault in pay9 ent, Goody1s has assiKned the lonKlter9 portion o8the ratinK based upon the (oint probability o8 de8ault by both parties. $n deter9 ininK the (oint probability o8de8ault, Goody1s considers the le5el o8de8ault dependence betf een the Banz and the Borrof er. Goody1s has deter9 ined that there is a hiKh le5el o8de8ault dependence betf een the Banz and the Borrof er. Ls a result, the (oint probability o8de8ault 8or the Banz and the Borrof er results in a credit risz consistent f ith a Jk L ratinK o8LaO8or the Bonds.

$nterest - ate Godes and ; ay9 ent

The Bonds f ill bear interest in a f eezly rate 9 ode and interest f ill be paid on the 8rst business day o8each 9 onth. The bond trust indenture per9 its con5ersion o8the Bonds, in f hole, to a 9 ediu9 ter9 or 8Ped interest rate period and upon any con5ersion the Bonds f ill be sub(ect to 9 andatory purchase. The ratinK applies to the Bonds bearinK interest in the f eezly period only.

Lddditional Bonds

No additional bonds shall be issued under the bond trust indenture.

Flof o8Funds

The trustee is instructed to draf under the) 7 C on or be8ore xjVV p.9 ., Nef 0orz City ti9 e, on the business day prior to any principal and interest pay9 ent date, in accordance f ith the) 7 C so as to recei5e 9 oneys on the nePt business day in a9 ount su8cient 8or the pay9 ent in 8ull o8the principal and interest due on the Bonds. $8the Banz

8ails to honor a draf under the) 7 C, the trustee shall i9 9 ediately noti8y the Borrof er and de9 and pay9 ent o8 such a9 ount. The trustee is also instructed to draf under the) 7 C by MMJOV a.9 ., Nef 0 orz City ti9 e, on each purchase date to the ePtent re9 arzetinK proceeds are insu88cient. Bonds f hich are purchased by the Banz due to a 8ailed re9 arzetinK are held by the trustee and f ill not be released until the trustee has recei5ed con8r9 ation 8ro9 the Banz statinK that the) 7 C has been reinstated in the a9 ount o8the purchase price draf n 8or such Bonds.

) etter o8Credit

The) 7 C is siwed 8or 8ull principal plus Og days o8interest at the 9 aPi9 u9 rate applicable to the Bonds 'MA4 v calculated based on Q V days year and f ill pro5ide co5eraKe 8or the Bonds f hile they bear interest in the f eezly rate 9 ode.

k raf s on the) etter o8Credit

Con8or9 inK draf s 8or principal and interest presented to the Banz at or be8ore xjVV p.9 ., Nef 0 orz City ti9 e, on a business day, f ill be honored by the Banz no later than AjOV p.9 ., Nef 0 orz City ti9 e, on the nePt business day. Con8or9 inK draf s 8or purchase price presented to the Banz at or be8ore MAjVV noon, Nef 0 orz City ti9 e, on a business day, f ill be honored by such Banz no later than AjOV p.9 ., Nef 0 orz City ti9 e, on such business day.

Substitution o8the) etter o8Credit

The Bonds f ill be sub(ect to 9 andatory tender on the 88th '/ thv business day prior to substitution o8the) 7 C. k raf s 8or purchase price upon the substitution f ill be 9 ade under the ePistinK) 7 C and the ePistinK) 7 C f ill not be surrendered to the Banz 8or cancellation until a8er such tender draf is honored.

- einstate9 ent o8$nterest k raf s

k raf s 9 ade under the) 7 C 8or interest shall be auto9 atically reinstated at the close o8business on the date o8 pay9 ent o8such interest draf inK unless the trustee recei5es 8ro9 the Banz a notice by xjVV p.9 . Nef 0 orz City ti9 e, on such pay9 ent date statinK that the Banz has not been rei9 bursed 8or such draf inK or that an e5ent o8 de8ault under the rei9 burse9 ent aKree9 ent has occurred. %pon receipt o8such notice the trustee f ill i9 9 ediately declare the principal o8and accrued interest on the Bonds due and payable and interest on such Bonds f ill cease to accrue on the day it beco9 es payable, f hich day shall be one business day a8er declaration o8acceleration.

- ei9 burse9 ent L Kree9 ent k e8aults

%pon an e5ent o8de8ault under the rei9 burse9 ent aKree9 ent, the Banz 9 ay direct the trustee to accelerate the Bonds. %pon receipt o8such notice, the trustee f ill declare the principal o8and accrued interest on the Bonds i9 9 ediately due and payable. $nterest f ill cease to accrue one day 8ollof inK the date on f hich the Bonds are declared i9 9 ediately due and payable. %pon receipt o8such notice the trustee f ill i9 9 ediately declare the principal o8and accrued interest on the Bonds due and payable and interest on such Bonds f ill cease to accrue on the day it beco9 es payable, f hich day shall be one business day a8er declaration o8acceleration.

Bond $ndenture E5ents o8k e8ault - elated to ; ay9 ent

%pon a 8ailure to pay f hen due the principal or interest or the purchase price on the Bonds, the trustee 9 ay, and at the f ritten re6uest o8the Banz or the holders o89 ore than tf ol thirds 'AV0v in aKKreKate principal a9 ount o8the outstandinK Bonds shall declare the principal o8and accrued interest on the Bonds due and payable and interest on such Bonds f ill cease to accrue on the day it beco9 es payable, f hich day shall be one business day a8er declaration o8acceleration.

EPpiration WTer9 ination o8the) etter o8Credit

The) 7 C shall ter9 inate upon the earliest to occur o8 'iv Septe9 ber AD, AVMD, the stated ePpiration datem'iiv the business day 8ollof inK con5ersion o8an interest rate o8the Bonds to a rate other than a f eezly interest ratem'iiiv the day f hich is 88teen 'M/ v days a8er trustee1s receipt o8a notice 8ro9 the Banz statinK that an e5ent o8de8ault under the rei9 burse9 ent aKree9 ent has occurred and directinK acceleration o8the Bonds, 'i5v the date an acceleration draf inK is honored by the Banzm'5v receipt by the Banz o8a certi8cate 8ro9 the trustee statinK that 'L v no Bonds re9 ain outstandinK and all draf s under the) 7 C ha5e been 9 ade and honored, or 'B v a substitute) 7 C has been issuedmor '5iv the date on f hich a stated 9 aturity draf inK that causinK the stated a9 ount o8the) 7 C to be reduced to UV is honored by the Banz.

7 ptional Tenders

Bondholders 9 ay optionally tender their Bonds on any business day durinK the f eezly rate 9 ode f ith 85e '/ v business days prior f ritten notice to the trustee and the re9 arzetinK aKent.

Gandatory ; urchases

The Bonds are sub(ect to 9 andatory purchase onj 'iv each interest rate con5ersion date 'iiv any interest reset date f hile the Bonds are in the 9 ediu9 Iter9 rate period, 'iiiv the 88th '/ thv business day prior to the e88ecti5e date o8 an alternate letter o8 credit or 'i5v the second 'Andv business day prior to the ePpiration date o8 the letter o8 credit.

2 hat Could ChanKe the - atinKI%p

) onKITer9 j the lonKIter9 ratinK on the Bonds could be upKraded i8 the Banz1s lonKIter9 deposits ratinK or the lonKIter9 ratinK o8 the Borrof er f as upKraded, or i8 there f as a decrease in the le5el o8 de8ault dependence betf een the Banz and the Borrof er.

ShortITer9 j NW/

2 hat Could ChanKe the - atinKIk of n

) onKITer9 j the lonKIter9 ratinK on the Bonds could be lof ered i8 the Banz1s lonK ter9 deposits ratinK or the lonKI ter9 ratinK o8 the Borrof er f as dof nKraded, or i8 there is an increase in the le5el o8 de8ault dependence betf een the Banz and the Borrof er.

ShortITer9 j the shortIter9 ratinK on the Bonds could be lof ered i8 the Banz1s shortIter9 deposits ratinK f as dof nKraded.

GethodoloKy

The principal 9 ethodoloKies used in ratinK this issue f ere Goody1s - atinK GethodoloKy 8or) etter o8 Credit Supported Transactions published in LuKust AVV/ and LpplyinK RIobal Joint k e8ault Lnalysis to) etter o8 Credit Baczed Transactions in the %.S. ; ublic Finance Sector published in Septe9 ber AVVV. 7 ther 9 ethodoloKies and 8actors that 9 ay ha5e been considered in the process o8 ratinK this issue can also be 8ound on Goody1s f ebsite.

Contacts

- e9 arzetinK LKentj Banz o8 L9 erica Gerrill) ynch

Trusteej The Banz o8 Nef 0orz Gellon Trust Co9 pany

G7 7 k 0 1S adopts all necessary 9 easures so that the in8or9 ation it uses in assiKninK a credit ratinK is o8 su88icient 6uality and 8ro9 sources G7 7 k 0 1S considers to be reliable includinK, f hen appropriate, independent thirdIparty sources. Hof e5er, G7 7 k 0 1S is not an auditor and cannot in e5ery instance independently 5eri8y or 5alidate in8or9 ation recei5ed in the ratinK process.

; lease see ratinKs tab on the issuerVentity paKe on Goodys.co9 8or the last ratinK action and the ratinK history.

The date on f hich so9 e Credit - atinKs f ere 8irst released Koes bacz to a ti9 e be8ore Goody1s $n5estors Ser5ice1s Credit - atinKs f ere 8ully diKitiwed and accurate data 9 ay not be a5ailable. Conse6uently, Goody1s $n5estors Ser5ice pro5ides a date that it belie5es is the 9 ost reliable and accurate based on the in8or9 ation that is a5ailable to it. ; lease see the ratinKs disclosure paKe on our f ebsite f f f .9 oodys.co9 8or 8urther in8or9 ation.

; lease see the Credit ; olicy paKe on Goodys.co9 8or the 9 ethodoloKies used in deter9 ininK ratinKs, 8urther in8or9 ation on the 9 eaninK o8 each ratinK cateKory and the de8inition o8 de8ault and reco5ery.

Analysts

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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

J o hns Ci tyrn Hyeal &Eadt rsaucd
. tFFn Jt BBi ,n&e
cd

Opinion

TNS pr 2 0ur 1nA/ uVMAA II Gi i eh$ HyE&9ni ,9 J &,ED1&PLGi i eh$LOs69 699D5y&e ,6nD59 i Wd6VRcGHK Ani ns&
4 &6Fns 6ye Net 16nDy6F. 61DDD&9 - i 6,e i Ws& CDn i W'i sy9i y CDnuv&yy&99&&4 i 9BD6F2 &E&yt & - i ye9
PGi tyn6D J n6n&9 4 &6Fns dFFDy1&OuJ &,D&9 VMAAdu6ye dARcGHK Ani J &,D&9 VMAA- i Ws6n96o & D9t &(d6VRcGHK A
ni ns& Hyet 9n,DFI &E&F Bo &yndt rsi ,Dn i W o hns Ci tymhuc D5DD 4 i 9BD6F2 &E&yt & - i ye9 PGi tyn6D J n6n&9
4 &6Fns dFFDy1&9OuJ &,D&9 VMAACu6ye d6" RcGHK Ani J &,D&9 VMAAI i Ws6n96o & D9t &(6ye d6" RcGHK Ani ns&
Gi tyn6D J n6n&9 4 &6Fns dFFDy1& v6) 6gR& - i ye9uJ &,D&9 VMAAN PIi FR&1nDE&Fnurs& L- i ye9LOvs& Fy5In&,o ,6nD59 i W
J &,D&9 VMAAI 6ye VMAAN 6,& i y ,&EDf W, ei f y5,6e& D 1i yy&1nDy f Ds Gi i eh$ i y5i D5 ,&EDf i WGDt si
Ci ,Bi ,6n& - 6ymu; nea

vs& B,i 1&&e9 i Ws& 96R& i Ws& - i ye9 f DFg& t 9&e ni YR6OWD6y1& 1&,n6D 16BD6F&) B&y9&9 6nGi tyn6D J n6n&
4 &6Fns dFFDy1& W1DDD&9 (RgO,&WD6y1& 3AAa/ o DFDy i Ws& 4 i 9BD6F2 &WyeD5 6ye Hd B,i E&o &yn2 &E&yt & - i ye9
PTi ,ni y Ci o o t yDn 4 i 9BD6Fuly1aOuJ &,D&9 VMAA D9t &e gh ns& Hyet 9n,DFI &E&F Bo &yndt rsi ,Dn i Ws& CDn i W
Ti ,ni yuc D5DD(6ye PIOB6h 1&,n6D &) B&y9&9 D1t ,,&e D 1i yy&1nDy f Ds ns& D9t 6y1& i Ws& - i ye9a

J x GGd2 p 2 dvHTKJ 2 dvHI Td; N

vs& ,6nD59 6,& g69&e t Bi yYRDeD&1nIB6h R&n&,9 i W1,&eDB,i EDe&e gh x aJ a- 6ymT6nDy6Fd99i 1DnDy W, J &,D&9
VMAAd 6ye J &,D&9 VMAACub TC - 6ymuT6nDy6Fd99i 1DnDy W, J &,D&9 VMAA- u6ye GDt si Ci ,Bi ,6n& - 6ymu; neaW,
J &,D&9 VMAAI 6ye J &,D&9 VMAAN(RDDDns& 9n,t 1nt ,& 6ye R&56FB,i n&1nDy9 i Ws& n,6y961nDy f sDs &y9t ,& nD &Fn
B6ho &yni We&gn9&,ED1& 6ye Bt ,1s69& B,D1& ni gi yesi Fe&,9(6ye RDDDGi i eh$ &E6F6nDy i Ws& 1,&eDwt 6FDn i Ws&
- 6ym9 D9t D5 ns& R&n&,9 i W1,&eDa

Gi i eh$ 1t ,,&ynFn ,6n&9 x aJ a- 6ymT adad6VW, D9 Fy5In&,o i ns&, 9&yD, i gFD6nDy9 PLr Jr LO6ye b,Do &IAW, D9
9si ,nIn&,o r Jr abTC - 6ymuT adaD9 1t ,,&ynFn ,6n&e dVW, D9 Fy5In&,o r Jr 6ye b,Do &IAW, D9 9si ,nIn&,o r Jr a
GDt si Ci ,Bi ,6n& - 6ymu; ne$ Fy5In&,o 6ye 9si ,nIn&,o D9t &, ,6nD59 6,& 1t ,,&ynFn dARy ,&EDf W, ei f y5,6e&O
6ye b,Do &IAu,&9B&1nDE&Fna

I NvdH;NI C2NI HyI HJCxJJHI T

Hyn&,&9n2 6n& Gi e&9

vs& - i ye9 f DFg& D9t &e D ns& f &&mFn ,6n& o i e& 6ye B6h Dyn&,&9ni y ns& WD9ngt 9D&99 e6h i W&61s o i ynsu
1i o o &y1D5 Ti E&o g&, AuVMAAaN61s R&n&, i W1,&eDB,i EDe&9 9t WWDD&yn1i E&,65& W, ns& 6BBFD6gR& J &,D&9 i W
gi ye9 D ns& f &&mFn ,6n& o i e& i yFnavs& gi ye ei 1t o &yn9 B&,o Dn1i yE&,9Dy i Ws& Dyn&,&9n,6n& i y ns& - i ye9uD
f si R&uni ns& o &eDo In&,o ,6n&,i , WD&e ,6n& o i e&9avs& - i ye9 f DFg& 9t gz&1nni o 6ye6ni ,h n&ye&, t Bi y &61s
1i yE&,9Dy aGi i eh$,6nD5 i y ns& - i ye9 6BBFD&9 i yFn ni - i ye9 g&6,D5 Dyn&,&9n D ns& f &&mFn ,6n& o i e&9a

. Ff i Wt ye9

vs& ,nt 9n&& D9 D9,nt 1n&e ni e,6f t ye& ns& 6BBFD6gR& R&n&, i W1,&eDgh kYMMBao ai y ns& gt 9D&99 e6h B,D, ni ns&
B6ho &yne6n& D i ,e&, ni ,&1&DE& Wye9 9t WWDD&ynni B6h ns& B,D1D6Fu6ye Dyn&,&9n611,t &e ns& &,i yuf s&y ns& 96o &
g&1i o &9 et &avs& ,nt 9n&& D9 9s6FF6F9i e,6f W, Bt ,1s69& B,D1& t ye& ns& R&n&, i W1,&eDgh AAYM6ao au D
611i ,e6y1& f Ds D9 n&,o 9 ns& &i W9i 69 ni ,&1&DE& 9t WWDD&ynWye9 gh VYMBao ai y ns& 96o & e6h ni B6h ns&

Bt ,1s69& B,D1& i W i ye9 n&ye&,&e i y ns& Bt ,1s69& e6n& ni ns& &) n&yn,&o 6,m&nD5 B,i 1&&e9 ,&1&DE&e 6,&
D9t WDD&yna- i ye9 f sDs 6,& Bt ,1s69&e gh ns& 6BBFD6gR& g6ymet & ni 6 VMDB&e ,&o 6,m&nD5 6,& s&Fe gh ns& ,nt 9n&&
6ye f DFyi ng& ,&R69&e t ynDFns& ,nt 9n&& s69 ,&1&DE&e f ,Dn&y 1i yVDo 6nDy V,i o ns6ng6ym9n6nD5 ns6nns& 6BBFD6gR&
R&m&, i W1,&eDs69 g&&y ,&D9n6n&e D ns& 6o i t yni Ws& Bt ,1s69& B,D1& e,6f y W, 9t 1s - i ye9aRdFFnD &9 ,&W&, ni
N69n&,y Jn6ye6,e vD &Qa

; &m&,9 i WC,&eD

N61s R&m&, i W1,&eDD9 9D&e W, ns& WFFB,D1DB6F6o i t ynBF9 nsD,nI9&E&y e6h9 i WDn&,&9n6n6 ,6n& i WAVUurs&
o 6) D t o ,6n& i y ns& - i ye9aN61s R&m&, i W1,&eDB,i ED&9 9t WDD&yn1i E&,65& W, ns& 6BBFD6gR& J&,D&9 i Wi ye9
f sDR& ns&h g&6, Dn&,&9nD ns& f &&mFn ,6n& o i e& i yFaN61s R&m&, i W1,&eDD9 5i E&,y&e gh 6ye 1i y9,nt &e D
611i ,e6y1& f Ds ns& Hyn&,y6nDy6FJn6yegh b,61nD&9 AqqjuHyn&,y6nDy6FCs6o g&, i WCi o o &,1& bt gFD6nDy Ti a
%qMPHJbqjQa

I ,6f 9 i y ns& ; &m&,9 i WC,&eD

Ci yW,o D5 e,6f 9 W, B,D1DB6Fi , Dn&,&9n,&1&DE&e gh x aJa- 6ymTadauW, J&,D&9 VMAAd 6ye VMAACu6ni , g&W,&
"YMMBao ai y 6 gt 9D&99 e6h f DFg& si yi ,&e gh AY' MBao ai y ns& y&) ngt 9D&99 e6haCi yW,o D5 e,6f 9 W,
Bt ,1s69& B,D1& ,&1&DE&e gh x aJa- 6ymTad 6ni , g&W,& AAY' M6ao ai y 6 gt 9D&99 e6h f DFg& si yi ,&e gh AY' MBao a
i y ns& 96o & gt 9D&99 e6haRdFFnD &9 ,&W&, ni C&yn,6FJn6ye6,e vD &Qa

Ci yW,o D5 e,6f 9 W, B,D1DB6Fi , Dn&,&9n,&1&DE&e gh b T C - 6ymuTadai , GDt si Ci ,Bi ,6n& - 6ymu; neau
9t BBi ,nD5 J&,D&9 VMAA- u6ye VMAAI 6ye VMAANu,&9B&1nDE&Fhu6ni , g&W,& kYMMBao ai y 6 gt 9D&99 e6h f DFg&
si yi ,&e gh VY' MBao ai y ns& y&) ngt 9D&99 e6haCi yW,o D5 e,6f 9 W, Bt ,1s69& B,D1& ,&1&DE&e gh nsi 9& g6ym9 6n
i , g&W,& AVY' MBao ai y 6 gt 9D&99 e6h f DFg& si yi ,&e gh VY' MBao ai y ns& 96o & gt 9D&99 e6haRdFFnD &9 ,&W&, ni
N69n&,y Jn6ye6,e vD &Qa

2 &D9n6n&o &ynr WHyn&,&9nI ,6f 9

I ,6f 9 o 6e& t ye&, &61s R&m&, i W1,&eDW, Dn&,&9n9s6FFg& 6t ni o 6nD6FFn ,&D9n6n&e 6nns& 1F 9& i Wgt 9D&99 i y ns&
e6n& i W9t 1s B6ho &ynt yR&99 ns& ,nt 9n&& ,&1&DE&9 f ,Dn&y yi nD& V,i o ns& 6BBFD6gR& g6ymgh "YMMBao aRC&yn,6F
Jn6ye6,e vD &OD ns& 169& i WJ&,D&9 VMAAd i , VMAAC gi ye9ui , kYMMBao aRN69n&,y Jn6ye6,e vD &OD ns& 169& i W
J&,D&9 VMAA- uVMAAI ui , VMAAN i y ns& e6n& i W9t 1s B6ho &yn9B&1DWD5 ns& i 11t ,,&y1& i W6y &E&yni We&Wt Fn
t ye&, ns& ,&D gt ,9&o &yn65,&&o &yn6ye eD,&1nD5 ns& ,nt 9n&& ni 611&R&,6n& ns& 6BBFD6gR& J&,D&9 i W i ye9aS Ds
eD,&1nDy ni 611&R&,6n& ns& 6BBFD6gR& J&,D&9 i Wgi ye9urs& ,nt 9n&& 9s6FFe&1F6,& gi ye9 i Ws6nJ&,D&9 ns&y
it n9n6yeD5 ni g& D o &eDn&Fn et & 6ye B6h6gR&uf s&,&t Bi y ns&h 9s6FFg&1i o & 6ye g& D o &eDn&Fn et & 6ye
B6h6gR&avs& ,nt 9n&& D9 D9n,t 1n&e ni D o &eDn&Fn e,6f i y ns& R&m&, i W1,&eDaHyn&,&9nf DF1&69& ni 611,t & i y&
16R&ye6, e6h WFF f D5 ns& ,nt 9n&&$9 e&1F6,6nDy i W611&R&,6nDya

2 &D gt ,9&o &ynd 5,&&o &ynI &Wt F9

Hy ns& &E&yni W6 e&Wt Fnt ye&, ns& ,&D gt ,9&o &yn65,&&o &ynurs& 6BBFD6gR& g6ymo 6hu6nD9 i BnDyue&FDE&, f ,Dn&y
yi nD& ni ns& ,nt 9n&& 9n6nD5 ns6n9t 1s &E&yni We&Wt Fnt ye&, ns& ,&D gt ,9&o &yn65,&&o &yns69 i 11t ,,&e 6ye eD,&1n
ns& ,nt 9n&& ni 611&R&,6n& ns& 6BBFD6gR& J&,D&9 i Wgi ye9aS Ds eD,&1nDy ni 611&R&,6n& ns& 6BBFD6gR& J&,D&9 i W
- i ye9urs& ,nt 9n&& 9s6FFe&1F6,& gi ye9 i Ws6nJ&,D&9 ns&y i t n9n6yeD5 ni g& D o &eDn&Fn et & 6ye B6h6gR&u
f s&,&t Bi y ns&h 9s6FFg&1i o & 6ye g& D o &eDn&Fn et & 6ye B6h6gR&avs& ,nt 9n&& D9 D9n,t 1n&e ni D o &eDn&Fn e,6f
i y ns& R&m&, i W1,&eDaHyn&,&9nf DF1&69& ni 611,t & i y& 16R&ye6, e6h WFF f D5 ns& ,nt 9n&&$9 e&1F6,6nDy i W
611&R&,6nDyavs& 6BBFD6gR& R&m&, i W1,&eDf DFn&,o D6n& i y ns& WDN&&yns 16R&ye6, e6h WFF f D5 ns& ,nt 9n&&$9 ,&1&DBn
i Wyi nD& V,i o ns& 6BBFD6gR& g6ym9B&1DWD5 ns& i 11t ,,&y1& i W6y &E&yni We&Wt Fnt ye&, ns& ,&D gt ,9&o &yn
65,&&o &yn6ye eD,&1nD5 ns& ,nt 9n&& ni 611&R&,6n& ns& 6BBFD6gR& J&,D&9 i Wgi ye9a

N) BD,6nDyRr&,o D6nDy i Ws& ; &m&,9 i WC,&eD

N61s R&m&, i W1,&eDf DFn&,o D6n& t Bi y ns& &6,FB&9nni i 11t , i WRD1F 9& i Wgt 9D&99 i y r 1ni g&, AquVMAkurs&
9n6n&e &) BD,6nDy e6n& i Ws& 6BBFD6gR& R&m&, i W1,&eD(RDDs& gt 9D&99 e6h WFF f D5 ns& 1i yE&,9Dy i W6FFi Ws&
6BBFD6gR& J&,D&9 i Wgi ye9 ni 6 ,6n& o i e& i ns& ns6y ns& f &&mFn ,6n&(RDDs& e6n& ns& g6ym,&1&DE&9 yi nD& V,i o
ns& ,nt 9n&& 9B&1DWD5 ns6nRO yi 6BBFD6gR& gi ye9 i W6 J&,D&9 ,&o 6D i t n9n6yeD5 6ye 6FF,&wt D,&e e,6f 9 6E6DB6gR&
t ye&, ns& 6BBFD6gR& R&m&, i W1,&eDs6E& g&&y o 6e& 6ye si yi ,&eui , RgO6y &WW1nDE& 9t g9nDn n& R&m&, i W1,&eDs69
g&&y D9t &e ni ,&BF61& ns& 6BBFD6gR& R&m&, i W1,&eD(RDEOns& e6n& i y f sDs 6y 611&R&,6nDy e,6f D5 D si yi ,&e gh
ns& 6BBFD6gR& g6ym(RDEOWDN&&y 16R&ye6, e6h9 WFF f D5 ns& ,nt 9n&&$9 ,&1&DBni Wyi nD& V,i o ns& 6BBFD6gR& g6ym
9B&1DWD5 ns& i 11t ,,&y1& i W6y &E&yni We&Wt Fnt ye&, ns& ,&D gt ,9&o &yn65,&&o &yn6ye eD,&1nD5 ns& ,nt 9n&& ni
611&R&,6n& ns& 6BBFD6gR& J&,D&9 i Wgi ye9(i ,uRDDOns& e6n& i y f sDs 6 9n6n&e o 6nt ,Dn e,6f D5 D si yi ,&e gh ns&

6BBFD6gR& g6yma

Jtg9nDtnDy

vs&-iye9f DFg&9tgz&1nni o 6ye6ni,h n&ye&,iy VDWs gt9D&99 e6h B,D,ni ns&&W&1nDE&e6n&iW6 9tg9nDtn&R&m&,iW1,&eDal ,6f 9 W,Bt,1s69&B,D&tBiy ns&9tg9nDtnDy iWs&R&m&,iW1,&eDf DFg&o 6e&tye&,ns&&)D9nD5 R&m&,iW1,&eD6ye ns&&)D9nD5 R&m&,iW1,&eDf DFyi ng&9t,,&ye&,&e ni ns&g6ymW,16y1&FF6nDy tynDF9t1s n&ye&,e,6f s69 g&&y siyi,&ea

r BnDy6Fv&ye&,9

-iyesiFe&,9 o 6hiBnDy6FFn&ye&,ns&D-iye9uf sDB&ns&-iye9 6,&D ns&f &&mFn ,6n&oie&uiy6yh gt9D&99 e6h gh B,iEDeD5 f ,Dn&yyinD&ni ns&n,t9n&&6ye,&o 6,m&nD5 65&yngh"YMMBao a6nR&69nWDE&gt9D&99 e6h9 B,D,ni ns&Bt,1s69&e6n&aRdFFnD &9,&W&,ni N69n&,y Jn6ye6,e vDo &Qa

G6ye6ni,h v&ye&,9

vs&-iye9 6,&9tgz&1nni o 6ye6ni,h n&ye&,iyYFDDiy6yh Dyn&,&9n,6n&oie&1iyE&,9Dy e6n&uii,6yh B,iBi9&e Dyn&,&9n,6n&oie&1iyE&,9Dy e6n&(FDDiy ns&WDWs gt9D&99 e6h B,&1&eD5 ns&&W&1nDE&e6n&iW6 9tg9nDtn&R&m&,iW1,&eD(FDDDiy ns&6ezt9no &yne6n&f sDB&ns&-iye9 g&6,Dyn&,&9n6nns&o&eDoIn&,o ,6n&(FDEOiy ns&WD9n 16R&ye6,e6h iW6 f &&mFn ,6n&B&,De WFFf D5 6 o &eDoIn&,o ,6n&B&,De(6ye FEOiy ns&9&1iye gt9D&99 e6h B,D,ni ns&&)BD,6nDy e6n&iWs&R&m&,iW1,&eDa

S s6nCitFe Cs6y5&ns&2 6nD5 I x B

;iy5Iv&,o Yvs&Fy5In&,o ,6nD5 iy ns&6BBFD6gR&J&,D&9 iWgiye9 1itFe g&,6D9&eDWs&Fy5In&,o ,6nD5 iWs& 6BBFD6gR&g6ymf 69 tB5,6e&ea

Jsi,nIv&,o YTin6BBFD6gR&a

S s6nCitFe Cs6y5&ns&2 6nD5 I I ify

;iy5Iv&,o Yvs&Fy5In&,o ,6nD5 iy ns&6BBFD6gR&J&,D&9 iWgiye9 1itFe g&Ff &,&eDWs&Fy5In&,o ,6nD5 iWs& 6BBFD6gR&g6ymf 69 eif y5,6e&ea

Jsi,nIv&,o Yvs&9si,nIn&,o ,6nD5 iy ns&6BBFD6gR&J&,D&9 iWgiye9 f itFe g&Ff &,&eDWs&9si,nIn&,o ,6nD5 iWs& 6BBFD6gR&g6ymf 69 eif y5,6e&ea

0&h Ciyn61n9Y

v,t9n&&Yvs&-6ymiWT&f pi,mG&FFy v,t9nCio B6yhuTada

xye&,f ,Dn&,Y-iWW G&,,DF;hy1s RW,J&,D&9 VMAAduVMAA-uVMAAI u6ye VMAANO6ye xaJa-6ymTadaRW,J&,D&9 VMAACO

2&o 6,m&nD5 d5&ynYG&,,DF;hy1subD&,1&u.&yy&,8 Jo Ds RW,J&,D&9 VMAAduVMAA-uVMAAI u6ye VMAANO6ye xaJa -6ymTadaRW,J&,D&9 VMAACO

b2HTCHbd; GNv4r I r ;r Kp xJNI

vs&B,D1D6Fo &nsieiF5h t9&eD nsD9 ,6nD5 f 69 Giieh$9 G&nsieiF5h W,2 6nD5 xaJabtgFD .D6y1& v,6y961nDy9-69&eiy ns&C,&eDJtg9nDtnDy dBB,i61s Rdt5t9nVMMqQabR&69&9&&ns&C,&eDbiFDh B65&iy f f f aoiieh9a1io W,61iBhiWsD9 o &nsieiF5ha

2NKx;dvr 2p I HC;r Jx2NJ

vs&KFFg6FJ16R&C,&eD2 6nD59 iy nsD9 B,&99 ,&R&69&ns6n6,&D99t&e gh iy&iWGiieh$9 6WDDE6n&9 itn9De&ns&Nx 6,&1iy9De&,&e Nx Qt6FDD&e gh N)n&y9Dy 6ye ns&,&W,&6E6DB6gR&W,,&5tF6ni,h t9&D ns&Nx a.t,ns&,DW,o6nDy iy ns&Nx &yei,9&o &yn9n6nt9 6ye iy ns&Giieh$9 iWDD&ns6ns69 D99t&e 6 B6,nDtF6,C,&eD2 6nD5 D 6E6DB6gR&iy f f f aoiieh9a1io a

.i,,6nD59 D99t&e iy 6 B,i5,6o u9&,D&9 i,16n&5i,hRF699 iWe&gnunsD 6yyity1&o &ynB,iED&9 ,&R&E6yn,&5tF6ni,h eD1FF9t,&9 D ,&F6nDy ni &61s ,6nD5 iW6 9tg9&wt&ynFn D99t&e giye i,yin&iWs&96o &9&,D&9 i,16n&5i,hRF699 iWe&gni,Bt,9t6ynni 6 B,i5,6o W,f sDs ns&,6nD59 6,&e&,DE&e &)1FF9DE&Fn W,o &)D9nD5 ,6nD59 D 611i,e6y1&

f Ds Giieh$9 ,6nD5 B,61nD1&9a.i, ,6nD59 D9t&e iy 6 9tBBi,nB,iEDe&,unsD9 6yyity1&o &ynB,iEDe&9 ,&F&E6yn ,&5tF6ni,h eD91F9t,&9 D ,&F6nDy ni ns&,6nD5 61nDy iy ns&9tBBi,nB,iEDe&, 6ye D ,&F6nDy ni &61s B6,nDtF6, ,6nD5 61nDy W, 9&1t,nD&9 ns6ne&,DE&ns&D,1,&eDn,6nD59 W,o ns&9tBBi,nB,iEDe&,$91,&eDn,6nD5a.i, B,iED9Dy6F,6nD59u nsD9 6yyity1&o &ynB,iEDe&9 ,&F&E6yn,&5tF6ni,h eD91F9t,&9 D ,&F6nDy ni ns&B,iED9Dy6F,6nD5 699D5y&eu6ye D ,&F6nDy ni 6 e&WDDE&,6nD5 ns6no 6h g&699D5y&e 9tg9&wt&ynni ns&WD6FD9t 6y1&iWs&e&gnuD &61s 169& fs&,& ns&n,6y961nDy 9n,t1nt,&6ye n&,o9s6E&yin1s6y5&e B,D, ni ns&699D5yo &yniWs&e&WDDE&,6nD5 D 6o 6yy&, ns6nfitFe s6E&6W&1n&e ns&,6nD5a.i, W,ns&, DW,o 6nDy BF&69&9&&ns&,6nD59 n6giy ns&D9t&,F&ynDn B65&W, ns&,&9B&1nDE&D9t&, iyfff aoiieh9a1io a

HyW,o 6nDy 9it,1&9 t9&e ni B,&B6,&ns&,6nD5 6,&ns&WFFf D5YB6,n&9 DyEiFE&e D ns&,6nD59 6ye BtgFD DW,o 6nDya

Giieh$9 1iy9De&,9 ns&wt6FDn iWDW,o 6nDy 6E6DF6gF&iy ns&,6n&e &ynDnuigF56nDy i, 1,&eDn96nD9W1ni,h W, ns& Bt,Bi9&9 iWD9tD5 6 ,6nD5a

Giieh$9 6eiBn9 6FFy&1&996,ho &69t,&9 i ns6nns&DW,o 6nDy Dnt9&9 D 699D5yD5 6 ,6nD5 D iW9tWD&ynwt6FDn 6ye W,o 9it,1&9 Giieh$9 1iy9De&,9 ni g&,&FD6gF&D1FFeD5ufs&y 6BB,iB,D6&uDe&B&ye&ynsD,eIB6,n 9it,1&9a 4if&E&,uGiieh$9 D yin6y 6teDn, 6ye 16yyinD &E&,h D9n6y1&De&B&ye&ynFn E&,DWi, E6FDe6n&DW,o 6nDy ,&1&DE&e D ns&,6nD5 B,i1&99a

bF&69&9&&Giieh$9 26nD5 JhogiF9 6ye I &WDDDy9 iy ns&26nD5 b,i1&99 B65&iyfff aoiieh9a1io W, W,ns&, DW,o 6nDy iy ns&o&6yD5 iW&61s ,6nD5 16n&5i,h 6ye ns&e&WDDDy iW&Wt Fn6ye ,&1iE&,ha

bF&69&9&&,6nD59 n6giy ns&D9t&,F&ynDn B65&iyfff aoiieh9a1io W, ns&F69n,6nD5 61nDy 6ye ns&,6nD5 sD9ni,ha

vs&e6n&iyfsDs 9io&,6nD59 f&,&WD9n,&F&69&e 5i&9 g61mni 6 nD &g&W,& Giieh$9 ,6nD59 f&,&WFF eD5DD&e 6ye 611t,6n&e6n6 o 6h ying&6E6DF6gF&aCiy9&wt&ynFuGiieh$9 B,iEDe&9 6 e6n&ns6nDg&F&E&9 D ns&oi9n ,&F&E6yn 611t,6n&g69&eiy ns&DW,o 6nDy ns6nD9 6E6DF6gF&ni DabF&69&9&&ns&,6nD59 eD91F9t,&B65&iyit, f&g9D&fff aoiieh9a1io W, W,ns&, DW,o 6nDya

bF&69&9&&fff aoiieh9a1io W, 6yhtBe6n&9 iy 1s6y5&9 ni ns&F&6e ,6nD5 6y6Fn9n6ye ni ns&Giieh$9 F&56F &ynDn ns6ns69 D9t&e ns&,6nD5a

Analysts

H6y 2i5if
dy6Fn9n
btgFD . D6y1&K,itB
Giieh$9 HyE&9ni,9 J&,ED1&

2ig&,nd:,D
J&yD, C,&eDn r WD&,
btgFD . D6y1&K,itB
Giieh$9 HyE&9ni,9 J&,ED1&

Contacts

'it,y6FD9n9YRVAVO%%" IM/7
2&9&6,1s CFD&yn9YRVAVO%%" IA7%

Giieh$9 HyE&9ni,9 J&,ED1&uHy1a
V%MK,&&yf Ds Jn,&&n
T&f pi,muTp AMMM
xJd

C2NI Hr 2dvHTKJ HJxNI -p Grr I p$J HTcNJvr 2J JN2cHCNuHTCadTI HrJ 2dvHTKJ d..H;HdvNJ
P"GHJ"Od2N Grr I p'J Cx22NTvr bHTHI TJr . v4N2N;dvHdN.xvx2N C2NI Hr 2HJ0r . NTvHrHNJu
C2NI Hr Cr GGHrGNTvJur 2 I N-vr 2 I N-vI;H0NJNCx2HrHNJudTI C2NI Hr 2dvHTKJ dTI 2NJNd2C4
bx-;HCdvHI TJ bx-;HJ4NI -p Grr I p'J P"Grr I p'J bx-;HCdvHI TJ"OGdp HTC;xI N Grr I p'J
Cx22NTvr bHTHI TJr . v4N2N;dvHdN.xvx2N C2NI Hr 2HJ0r . NTvHrHNJuC2NI Hr Cr GGHrGNTvJu
r 2 I N-vr 2 I N-vI;H0NJNCx2HrHNJaGrr I p'J I N. HTNJ C2NI Hr 2HJ0 dJ v4N2HJ0 v4dv dT NTvHrp
Gdp Tr v GNNv HrJ Cr Tv2dCvxd;u. HTdTCHd; r -;HKdvHI TJ dJ v4Np Cr GNI xN dTI dTp
NJvHGdvNI . HTdTCHd; ;r JJ HT v4N NcNTvr . I N.dx;vaC2NI Hr 2dvHTKJ I r Tr v dI I 2NJJ dTp
r v4N2 2HJ0uHTC;xI HTK-xv Tr v;HGHrNI vr Y;HQxHI Hrp 2HJ0uGd20Nv cd;xN 2HJ0ur 2 b2HCN
cr ;dvH;HHrpaC2NI Hr 2dvHTKJ dTI Grr I p'J r bHTHI TJ HTC;xI NI HT Grr I p'J bx-;HCdvHI TJ d2N
Tr v JvdvNGNTvJ r . Cx22NTvr 2 4HJvr 2HCd; .dCvaGrr I p'J bx-;HCdvHI TJ Gdp d;Jr HTC;xI N
QxdTvHrdvHdN Gr I N;I-dJNI NJvHGdvNJ r . C2NI Hr 2HJ0 dTI 2N;dvNI r bHTHI TJ r 2
Cr GGNTvd2p bx-;HJ4NI -p Grr I p'J dTd;pvHCJuHTCaC2NI Hr 2dvHTKJ dTI Grr I p'J
bx-;HCdvHI TJ I r Tr v Cr TJvHrxvNr 2 b2r cHI N HTcNJvGNTv r 2 .HTdTCHd; dI cHCNudTI C2NI Hr
2dvHTKJ dTI Grr I p'J bx-;HCdvHI TJ d2N Tr v dTI I r Tr v b2r cHI N 2NCr GGNTI dvHI TJ vr
bx2C4dJNuJN;;ur 2 4r ;I bd2vHCx;d2 JNCx2HrHNJaTNHr4N2 C2NI Hr 2dvHTKJ Tr 2 Grr I p'J
bx-;HCdvHI TJ Cr GGNTvr r T v4N JxHrd-H;HHrp r . dT HTcNJvGNTv.r 2 dTp bd2vHCx;d2
HTcNJvr 2aGrr I p'J HJxNJ HrJ C2NI Hr 2dvHTKJ dTI bx-;HJ4NJ Grr I p'J bx-;HCdvHI TJ S Hr4
v4N NXbNCvdvHI T dTI xTI N2JvdTI HTK v4dv NdC4 HTcNJvr 2 S H;uS Hr4 I xN Cd2NuGd0N HrJ
r S T JvxI p dTI Ncd;xdvHI Tr . NdC4 JNCx2Hrp v4dv HJ xTI N2 Cr TJHI N2dvHI T .r 2
bx2C4dJNu4r ;I HTKur 2 Jd;Na

Grr I p'J C2NI Hr 2dvHTKJ dTI Grr I p'J bx-;HCdvHI TJ d2N Tr v HTvNTI NI .r 2 xJN-p 2NvdH;
HTcNJvr 2J dTI Hr S r x;I -N2NC0;NJJ .r 2 2NvdH; HTcNJvr 2J vr Cr TJHI N2 Grr I p'J C2NI Hr
2dvHTKJ r 2 Grr I p'J bx-;HCdvHI TJ HT Gd0HTK dTp HTcNJvGNTv I NCHJHI TaH HT I r x-v prx
J4r x;I Cr TvdCv prx2 .HTdTCHd; r 2 r v4N2 b2r .NJJHI Td; dI cHJN2a

d;; HT.r 2GdvHI T Cr TvdHTNI 4N2NHT HJ b2r vNCvNI -p ;dSuHTC;xI HTK -xv Tr v ;HGHrNI vr u
Cr bp2HK4v ;dSudTI Tr TNr . JxC4 HT.r 2GdvHI T Gdp -N Cr bHNI r 2 r v4N2S HJN
2Nb2r I xCNI u2NbdC0dKNI u.x2v4N2 v2dTJGHrvNI uv2dTJ.N22NI uI HJJNGHTdvNI u
2NI HJv2H-xvNI r 2 2NJr ;I ur 2 Jvr 2NI .r 2 Jx-JNQxNTv xJN.r 2 dTp JxC4 bx2br JNuHT
S 4r ;Nr 2 HT bd2vuHT dTp .r 2Gr 2 GdTTN2 r 2 -p dTp GNdTJ S 4dvJr NcN2u-p dTp bN2Jr T
S Hr4r xv Grr I p'J b2HI 2 S 2HrvNT Cr TJNTva

dFFDyW,o 6nDy 1iyn6D&e s&,&D D9 i gn6D&e gh Grr I p'J W,o 9it,1&9 g&FB&E&e gh Dni g& 611t,6n&6ye ,&FBgR&a
-&16t9&iWs&Bi 99DgDDDn iWs,t o 6yi,o &1s6yD6F&,,i,69f &F69 i ns&, W1ni,9usif &E&,u6FFDyW,o 6nDy 1iyn6D&e
s&,&D D9 B,i EDe&e "dJ HJ" f Dsitnf 6,,6ynh iW6yh mDeaGrr I p$J 6ei Bn9 6FFy&1&996,h o &69t,&9 9i ns6nns&
DyW,o 6nDy Dt 9&9 D 699D5yD5 6 1,&eDn,6nD5 D9 iW9t WDDBynwt6FDn 6ye W,o 9it,1&9 Grr I p$J 1iy9De&,9 ni g&
,&FBgR&D1FeD5uf s&y 6BB,i B,Dn&uDe&B&ye&ynns,DelB6,nh 9it,1&9a4if &E&,uGrr I p'J D9 yin6y 6teDn,6ye
16yyinD &E&,h D9n6y1&De&B&ye&ynFE&,DWi,E6FDe6n&DyW,o 6nDy ,&1&DE&e D ns&,6nD5 B,i 1&99 i,D B,&B6,D5
ns& Giieh'9 bt gFD6nDy9a

vi ns&&)n&ynB&,o Dn&e gh F6f uGrr I p'J 6ye D9 eD,&1ni,9ui WDD&,9u&o BFFh&&9u65&yn9u,&B,&9&yn6nDE&9uFD&y9i,9
6ye 9t BBFB&,9 eD91F6D FDgDDDn ni 6yh B&,9iyi,&ynDn W,6yh DyeD,&1nu9B&1DFu1iy9&wt&ynDFui,D1De&yn6FF99&9i,
e6o 65&9f s6n9i&E&,6,D9D5 W,o i,D 1iyy&1nDy f Ds ns&DyW,o 6nDy 1iyn6D&e s&,&D i,ns&t9&iW,D6gDDDn ni
t9&6yh 9t1s DyW,o 6nDyu&E&y DWGrr I p'J i,6yh iWD9 eD,&1ni,9ui WDD&,9u&o BFFh&&9u65&yn9u,&B,&9&yn6nDE&9u
FD&y9i,9 i,9t BBFB&,9 D 6eED9&e D 6eE6y1&iWs&Bi 99DgDDDn iW9t1s FF99&9 i,e6o 65&9uD1FFeD5 gtnyinFD D&e
ni YF6O6yh FF99 iWB,&9&yni,B,i9B&1nDE& B,iWD9 i,FgO6yh FF99 i,e6o 65&6,D9D5 f s&,&ns&,&F&E6ynWDy6y1DF
D9n,to &ynD9 yinns&9t gz&1niW6 B6,nDt F6,1,&eDn,6nD5 699D5y&e gh Grr I p'Ja

vi ns&&)n&ynB&,o Dn&e gh F6f uGrr I p'J 6ye D9 eD,&1ni,9ui WDD&,9u&o BFFh&&9u65&yn9u,&B,&9&yn6nDE&9uFD&y9i,9
6ye 9t BBFB&,9 eD91F6D FDgDDDn W,6yh eD,&1ni,1io B&y96ni,h FF99&9 i,e6o 65&9 16t9&e ni 6yh B&,9iyi,&ynDnu
D1FFeD5 gtnyinFD D&e ni gh 6yh y&5FD&y1&Fgtn&)1FFeD5 W6teuf DFMFo D91iyet1ni,6yh ins&,mB&iWDDgDDDn
ns6nuW,ns&6Ei De6y1&iWeitgnugh F6f 16yying&&)1FFe&eCiy ns&B6,niWi,6yh 1iynD5&y1h f DsD i,g&hiye ns&
1iy,iFi WGrr I p'J i,6yh iWD9 eD,&1ni,9ui WDD&,9u&o BFFh&&9u65&yn9u,&B,&9&yn6nDE&9uFD&y9i,9 i,9t BBFB&,9u
6,D9D5 W,o i,D 1iyy&1nDy f Ds ns&DyW,o 6nDy 1iyn6D&e s&,&D i,ns&t9&iW,D6gDDDn ni t9&6yh 9t1s
DyW,o 6nDya

Tr S d22dTvpuNXb2NJJ r 2 HGb;HNI udJ vr v4N dCCx2dCpuvHGN;HTNJJuCr Gb;NvNTNJJu
GN2C4dTvd-H;HHrp r 2 .HrTNJJ .r 2 dTp bd2vHCx;d2 bx2br JNr . dTp JxC4 2dvHTK r 2 r v4N2

r bHTHI T r 2 HT. r 2 GdvHI T HJ KHcNT r 2 GdI N- p Gr r I p'J HT dTp . r 2 Gr 2 GdTTN2
S 4 dvJr NcN2 a

Gi i eh'9 HyE&9ni ,9 J&,ED1&uHy1au6 f si FFhl i f y&e 1,&eDi,6nDy5 65&y1h 9t g9DeDB,h i WGi i eh'9 Ci ,Bi ,6nDy P"GCr "Ou s&,&gh eD91F 9&9 ns6no i 9nD99t &,9 i We&gn9&1t ,DD&9 FDy1FeDy5 1i ,Bi ,6n&6ye o t yD1DB6Fgi ye9ue&g&ynt ,&9uyi n&9 6ye 1i o o &,1DBFB6B&,C6ye B,&W,,&e 9ni 1m,6n&e gh Gi i eh'9 HyE&9ni ,9 J&,ED1&uHy1as6E&uB,D, ni 699D5yo &yni W 6yh ,6nDy5u65,&&e ni B6h ni Gi i eh'9 HyE&9ni ,9 J&,ED1&uHy1aW, 6BB,6D96F6ye ,6nDy5 9&,ED1&9 ,&ye&,&e gh DiW&&9 ,6y5Dy5 W,i o 3Au%MMni 6BB,i) Do 6n&Fh 3Vu%MMMMaGCr 6ye GHJ 6F9i o 6Dyn6D Bi FD1D&9 6ye B,i 1&et ,&9 ni 6ee,&99 ns&Dye&B&ye&y1& i WGHJ'9 ,6nDy59 6ye ,6nDy5 B,i 1&99&9aHyW,o 6nDy ,&56,eDy5 1&,n6Dy 6WWBB6nDy9 ns6no 6h &) D9n g&nf &&y eD,&1ni ,9 i WGCr 6ye ,6n&e &ynDD&9u6ye g&nf &&y &ynDD&9 f si si Fe ,6nDy59 W,i o GHJ 6ye s6E& 6F9i Bt gFD1Fh ,&Bi ,n&e ni ns& J NC 6y i f y&,9sDB Dyn&,&9nDy GCr i Wo i ,& ns6y %Uu D9 Bi 9n&e 6yyt 6FFh 6n f f f ao i i eh9a1i o t ye&, ns& s&6eDy5 "HyE&9ni , 2 &F6nDy9 — Ci ,Bi ,6n& Ki E&,y6y1& — I D,&1ni , 6ye Js6,&si Fe&, dWWBB6nDy bi FD1ha"

. i , dt 9n,6FBi i yFhYdyh Bt gFD16nDy Dyni dt 9n,6FBi i WnsD9 ei 1t o &ynD9 Bt ,9t 6ynni ns& dt 9n,6FB6y . Dy6y1DBFJ &,ED1&9 ; D1&y9& i WGr r I p'J 6WWBB6n&uGi i eh'9 HyE&9ni ,9 J&,ED1& bnh ; Do Di&e d- T 7AMM "qq 7% d. J; ""7q7q 6yeRR, Gi i eh'9 dy6FFnD9 dt 9n,6FB bnh ; ne d- T qk AM%A"7 q/ Vd. J; "j "%7q F69 6BBFD16gR&Cavs D9 ei 1t o &ynD9 Dyn&ye&e ni g& B,i EDe&e i yFh ni "f si R&96R& 1FB&yn9" f DsDy ns& o &6yDy5 i W9&1nDy / 7AK i Wns& Ci ,Bi ,6nDy9 d 1nVMMAa- h 1i ynDyt Dy5 ni 611&99 nsD9 ei 1t o &ynWi o f DsDy dt 9n,6FBuhi t ,&B,&9&ynni Gr r I p'J ns6nhi t 6,&ui , 6,& 611&99Dy5 ns& ei 1t o &yn69 6 ,&B,&9&yn6nDE& i W6 "f si R&96R& 1FB&yn" 6ye ns6ny&Dns&, hi t yi , ns& &ynDnh hi t ,&B,&9&ynf DFFeD,&1nFh i , DyeD,&1nFh eD99&o Dy6n& nsD9 ei 1t o &yni , Do9 1i yn&yn9 ni ",&n6DF1FB&yn9" f DsDy ns& o &6yDy5 i W 9&1nDy / 7AK i Wns& Ci ,Bi ,6nDy9 d 1nVMMAaGr r I p'J 1,&eDi,6nDy5 D9 6y i BDyDy 69 ni ns& 1,&eDnf i ,nsDy&99 i W6 e&gni gFD56nDy i Wns& D99t &,uyi ni y ns& &wt Dnh 9&1t ,DD&9 i Wns& D99t &, i , 6yh W,o i W9&1t ,Dnh ns6nD9 6E6DB6gR& ni ,&n6DF1FB&yn9aHf i t Fe g& e6y5&,i t 9 W, ",&n6DF1FB&yn9" ni o 6n& 6yh DyE&9no &yne&1D9Dy g69&e i y Gr r I p'J 1,&eDi ,6nDy5aHWD eit gnhi t 9sit Fe 1i yn61nhi t , WDy6y1DBFi , ins&, B,i W&99Dy6F6eED9&,a

. i , '6B6y i yFhYGr r I p$J '6B6y 0a0 aP"G'00"CD9 6 f si FFhl i f y&e 1,&eDi,6nDy5 65&y1h 9t g9DeDB,h i WGr r I p$J K,it B '6B6y Ka0 auf sDs D9 f si FFhl i f y&e gh Gi i eh'9 r E&,9&69 4 i FeDy59 Hy1au6 f si FFhl i f y&e 9t g9DeDB,h i W GCr aGi i eh'9 J. '6B6y 0a0 aP"GJ. '"CD9 6 f si FFhl i f y&e 1,&eDi,6nDy5 65&y1h 9t g9DeDB,h i WG'00aGJ. ' D9 yi n6 T6nDy6FFh 2 &1i 5yDe&e Jn6nDDn6F2 6nDy5 r ,56yD6nDy P"T2 J2 r "Cavs&,&W,&u1,&eDi,6nDy59 699D5y&e gh GJ. ' 6,& TiyIT2 J2 r C,&eDi2 6nDy59aTiyIT2 J2 r C,&eDi2 6nDy59 6,& 699D5y&e gh 6y &ynDnh ns6nD9 yi n6 T2 J2 r 6yeu 1i y9&wt &ynFhurs&,6n&e i gFD56nDy f DFFyi nwt 6FDWW, 1&,n6Dy mB&9 i Wn,&6no &yntye&, x aJaF6f 9aG'00 6ye GJ. ' 6,& 1,&eDi,6nDy5 65&y1D&9 ,&5Dn&,&e f Dns ns& '6B6y . Dy6y1DBFJ &,ED1&9 d5&y1h 6ye ns&D,,&5Dn,6nDy yt o g&,9 6,& . Jd Ci o o D9Dy&, F2 6nDy59OTi aV 6ye " ,&9B&1nDE&Fha

G'00 i , GJ. ' F69 6BBFD16gR&Os&,&gh eD91F 9&9 ns6no i 9nD99t &,9 i We&gn9&1t ,DD&9 FDy1FeDy5 1i ,Bi ,6n& 6ye o t yD1DB6Fgi ye9ue&g&ynt ,&9uyi n&9 6ye 1i o o &,1DBFB6B&,C6ye B,&W,,&e 9ni 1m,6n&e gh G'00 i , GJ. ' F69 6BBFD16gR&Os6E&uB,D, ni 699D5yo &yni W6yh ,6nDy5u65,&&e ni B6h ni G'00 i , GJ. ' F69 6BBFD16gR&OW, 6BB,6D96F 6ye ,6nDy5 9&,ED1&9 ,&ye&,&e gh DiW&&9 ,6y5Dy5 Wi o 'bp VMMMMni 6BB,i) Do 6n&Fh 'bp "%MMMMMMMa G'00 6ye GJ. ' 6F9i o 6Dyn6D Bi FD1D&9 6ye B,i 1&et ,&9 ni 6ee,&99 '6B6y&9&,&5t F6ni ,h ,&wt D,&o &yn9a

MOODY'S
INVESTORS SERVICE

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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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.

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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

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Moody's Rating

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Moody's Outlook ATSL

Opinion

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D TUL AdI c2&APhFdrAv22hrhI 0vdAvFWPP$ P0r&Akyn-xA$ hdh 0A0I rhI 0vdAv$ I g0rGA4 hrdACPd$ v0A WrdPV&ATePRhvdAph0v0Rh0Fa 0RwAkCPd$ v0GAI VAkYvWrg&A0I rhI 0vdAv$ I g0r&AdvrAvWPAh0*P2Ah6P2AevVPVAv02AI rvcAPrgW0A&4 ve&wApvhVA$ vWPrAYvcgPA j rdP&PA&4 ve&AvrAWg0PA-aA'I-n1A4 v&Avbvqhdh VA jAyn-wf A$ hdh 0aAvFvh0&rA4 dhRdAD TUL Adv&Ae I &rP2Ayn/ wBA$ hdh 0A j RI cvrPWdcARI cvrPWdcA&A0I rAh0Rg2P2A0Ag0WP&rWRrP2ARv&dGACPd$ v0AhdP2AI VAqv0*VgerRVAv02AdP&4 ve&A4 PWP rPV$'h0vrP2APjjPRrhYPAM0gvWAnaA'I--mwASdPWPA&Av2h&egrPAqPr4 PP0AD TUL Av02ACPd$ v0AMPFvW2h0FAdPARI &rAjA&gRd rPV$'h0vrhI 0aA4 dhRdA&ARgWWP0rdVAg02PVA2h&Rg&&hI 0wAD TUL Adv&A&rvrP2AdvrAhrAqPdhPYP&AdvrAdPAv$ I g0rAjAdPAeI &rP2 RI cvrPWdc&dI gc2AqPA&gjjhRhP0rAI AevVAdPARI &rAjAdPAPV$'h0vrhI 0&w

SdPWPAvWPA4 I Av22hrhI 0vd&4 ve&aAI VAvA0I rhI 0vdAv$ I g0rAjAynmvfA$ hdh 0Av02AvA$ vWAI A$ vWPrAbvqhdh VA jAy11na--Av& I jAMg0PA-aA'I-n1w

DLt bHSAKOT S ONuI ODKHS S 3 HATSt LSH) E(Ao OD NLNSADLt bHSAKOT S ONANAMDUNTONA SEaA8 SU CHLo N) ADLt bHSAKOT S ONANAn/ JI Os NSEA Ot HALt HLALNo A'ImJI Os NSEAH©SHNo Ho ATHt 3 I HALt HL

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vFvh0&rAdPA$ gRdAcvWFPVA8 Pc$ I 0rAjvRhdmP&aATVRv$ I WPATdI vc&AUI &ehnvcAt RvrP2A0AHch vqPrdrI 0AI vWPVAK I g0rVGA4 hrd 0I A2hWPRrARI $ ePrhhh 0aAv02AdPA2P&hF0vrP2ARWhhRvcAvRRP&&AdI &ehnvcAM d0&I 0A I g0rVA I $ $ g0hnVAUI &ehnvcA0AM d0&I 0 I I g0rVw

TV&rP$ AP6ev0&h 0A0rI A&I grd4 P&rA3 hWFh0hvAjW$ AvARI 0RP0rWrhh 0A0A0I WdPv&rPW0ASP00P&&PPAdv&A0Rcg2P2AdP jI oc 4 h0F(ANI YP$ qPVAI--xAegWRdv&PA jAB-5 A0rPWP&rA0AT$ VrdA I g0rVA I $ $ g0hnVAUI &ehnvcA0AD vWI 09AORrI qPW 1--zAegWRdv&PA jA-wn5 A0rPWP&rA0ANI WI 0A I $ $ g0hnVAUI &ehnvcAdvrA0Rcg2P&ANI WI 0A I $ $ g0hnVAUI &ehnvcA0ANI WI 0 v02Ao hR*P0&I 0A I g0rVA I $ $ g0hnVAUI &ehnvcA0A d0r4 I I 29AMv0gvWA1--BAvR7gh&hhh 0A jAt g&&PcA I g0rVAD P2hRvc I P0rPWA0ACPqv0I 09Av02ALeWhA1--mAegWRdv&PA jA-wn5 A0rPWP&rA0AM d0&rI 0AD P$ I WvcAUI &ehnvcA0ALqh0F2I 0w I I $ qh0P2aAdPA3 hWFh0hvAdI &ehnvc&Av22P2Ax1zAhRP0&P2AqP2&Av02AvqI grAn-a--AvRgrPARvWPA2h&RdvWFP&AI AdPA&V&rP$ w Dv0vFP$ P0rARI 0rh0gP&AI A4 I V*A 0AjgcA0rPFWrhh 0A jAdP&PAjvRhdmP&A0rI AdPA&V&rP$ A4 hrdA0I ARgWP0rAecv0&AjI W v22hhh 0vcAjvRhdrVAvR7gh&hhh 0&w

0Av22hhh 0AI AP6ev02h0FA0A3 hWFh0hvaA0ASP00P&&PPAD TULA ePOP2AvA0P4 AjWPA&rv02h0FARdh2WP0.&AdI &ehnvcA0AD vWRd 1--maARI 0&I dh2vrP2A4 I A&$ vcPWAjvRhdmP&A0A8 v&dh0FrI 0A I g0rVaAv02Ag02PWI I *A rdPVAWP0I Yvrhh 0AeW%RrR&wAL&Av WP&gcraAdPA&V&rP$ AFWP4 Av2$ h&&h 0&A1z5 AvRW&&AvAjI gVAWPvVAePWI 2AI Axna/'Av2$ h&&h 0&A0A pEA1-nnAjW$ Af Ba'' v2$ h&&h 0&A0A pEA1--zwAOgrevrhP0rAYh&hr&Av02AP$ PWP0RVAM $ AYh&hr&AFWP4 AvA&h vqcPAxxwB5 Av02A-wB5 a WP&ePRrhYPcVaAv02AI rvcA&gWFPWP&A1xw5 AvRW&&AdPA&v$ PAjI gVAWPvVAePWI 2wATPYPWcAYI cg$ PA$ PrWR&ARI 0rh0gP2AI FW4 A0A pEA1-n1aA4 hrdAv2$ h&&h 0&A0RWPv&h0FA 0cVA&dhFdrcVAI Axnan'faAVPrAP$ PWP0RVAM $ AYI cg$ P&A0RWPv&h0F nwz5 AI A1f xaB1nAv02A grevrhP0rAYh&hr&A0RWPv&h0FA w5 AI A YPVAhwmA$ hdh 0wA W4 rdAdv&AP$ ePWP2AjI VA&gWFhRvcARv&P& v02AqhWd&aAdI 4 PYPWASdPWPAvWPA0I Av22hhh 0vcAjvRhdrVAP6ev0&h 0Aecv0&AvrAdh&AI$ Pw

OKHt LS N) AKHt pOt DLNI H(AOKHt LS N) A LTUApCO8 ADLt) NA HDL NTA ONT TSHNSCEATSt ON)

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D TULARI 0rh0gP&AI A4 I V*A 0AWPYP0gPAP0dv0RP$ P0rAv02ARI &rAWP2gRrhh 0APjjI Wh&wA PYP0gPAP0dv0RP$ P0rA0hhvrhYP& jI Rg&A 0ARI $ egrPWI P2ARI 2h0FaAWPvhaA0hhvrhYP&aFW4 rdA0Av$ qgcvrI WVAv02A grevrhP0rAYI cg$ P&aAv02ARdh0hRvc 2I Rg$ P0rvrhh 0wA I WApEA1-n1AD TULA&AqqgFPrh0FAjI VA0RWPv&PA0AqI rdAv2$ h&&h 0&Av02A grevrhP0rAYh&hr&a&rWrPFhR h0RWPv&PA0AeWRh0Fa$ Pv0h0FjgcAg&PA2I ccV&aA0RWPv&P2AWPYP0gPAWcvrP2AI AD P2hRvWPATdvWP2ATvYh0F&AKWFW$ Av02 D P2hRvWPAL2Yv0rvFPAdWgFdAn&AdPvrdA0Pr4 I WwAH6eP0&PA0hhvrhYP&A0Rcg2PACHL NaAWP2gRrhh 0&A0AP0FrdA jA&rvVa h$ eWYP$ P0r&A0AedV&hRhv0AeWRhRPAt &&P&aAWP2gRrhh 0&A0APv&PAP6eP0&PAv02ARI 0rWcA jA&geecVARI &r&wAD TULA4 hc WP2gRPARI 0rWRrAvqI VARI &r&aAMFdrJ&h PAePW&I 00PcAv02A$ I 2hjVAqP0PjhR&aAv02AjI Rg&A 0A rdPWA0I 0JRdh0hRvcAP6eP0&P&w SdP&PAWPYP0gPAv02AP6eP0&PA0hhvrhYP&AvWPARgWP0rcVAg02PWI vVw

i LOLNI HATUHHSAKOT S ON(Ao Hi SACOLo A HDL NTAU) U9AC's o SEA HDL NTAL i O3 HA1--Ao LET

SdPAI rvcA&V&rP$ A2PqrAtcv2AWP$ vh0&AdhFdAPYh2P0RP2AdWgFdAvAn'5 A2PqrJrI JWPYP0gPAWrhh A0ApEA1-n1aA0PA jAdP dhFdP&rA0A gVAeI WjI dh aAvc 0FA4 hrdAnnw'AI$ P&A2PqrJrI JRv&dAjc 4 wASdPATPWP&A1-n1AqI 02&A0RWPv&PA2PqrAtcv2Af wn5 jW$ A gVAdv&rAWPYhP4 Aqv&P2AgeI 0Ao PRP$ qPWAK naA1-nnAeWAjI V$ vA2PqraAv02Axw5 A YPWApEHA1-nnA2PqrAtcv2wANI v22hhh 0vcA2PqrA&AecvOOP2AvrAdh&AI$ PwASdPA2PqrA&rWgRrgWPA&AvA$ h6rgWPA jAh6P2Av02AYvWhqcPAWrPAqI 02&aA0I rP&Av02 RvehnvcAPv&P&wAL&A jAMg0PA-aA1-n1aAvqI grA z5 A jAI rvcA2PqrA&A0AvAjh6P2AWrPA$ I 2PAv02Af/5 A0AvAYvWhqcPAWrP $ I 2PaAv02A4 hcAWP$ vh0ARI $ evWvqcPAeI &rAjh0v0Rh0FwAKWAjI V$ vARv&dJrI J2P$ v02A2PqrA jAn-x5 AvrAMg0PA-aA1-n1AI& 2I 4 0AjW$ Annx5 AvrAo PRP$ qPWAK naA1-nnA2gPAI AqI rdAv0A0RWPv&PA0A2PqrAtcv2AvO2AvA2PRh0PA0Ah7gh2hrVwAD I I 2V.&J v2%g&rP2AeWAjI V$ vA$ v6I$ g$ Av00gvcA2PqrA&PWhRPAD Lo TGARI YPWFPA jA1wI-AI$ P&A0ApEA1-n1AI&A2I 4 0AjW$ AdP eWI VAWPvVAv02AdPAc 4 P&rAvRW&&AdPAev&rAjhYPAvg2hP2AVPvW&aAqgrA4 hrdh0AWOFPA jAdh&rI WhRvcAePWjI V$ vORPw

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SdPA&rvqcPA grd I * AWjcPRr&A gWAqPdPjAdvrAD TULA4 hrcARI 0rh0gPAI AFP0PWrP A&rW0FAv02A&rvqcPA ePWrh0FARv&dAjd 4 $ vWPh0&AI A&geeI WAr&AdhFdA2PqrAt v2wA8 PAqPdPYPAt7gl2hrVA4 hrcA$ eWYPAqvWW0FAv0VA$ v%WA0PFvrhYPAjvhA$ vWPrAYvcgP v2%gj&r$ P0r&w

8 ULSA Os Co AD O3 HASUHA LS N) As K

I I 0rh0gP2AFW4 rdA0A ePWrh0FARv&dAjd 4 AI A&geeI WAdPAdhFdA2PqrAt v29A$ vrPWrcA$ eWYP$ P0rA0A2PqrA$ Pv&gWP&9 WPFW4 rdA jAt7gl2hrV9A0RWPv&P2A2hYPWAjhRvrhI 0A jARv&dAjd 4

8 ULSA Os Co AD O3 HASUHA LS N) As O8 N

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J0YP&r$ P0rAPrgW&A&$ I I rdP2AvrAx5 Ag0cP&&A rdPWA'/I&PA0I rP2

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;D P2hRvh2A5 A jAFW&&AWPYP0gP&(An/wz5 9An f wn5

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;o PqrAI ARv&dAjd 4 Ak6GAzwzf 69Anwn'6

;o vV&ARv&dA 0Adv02(A1f xA2vV&9A1n1A2vV&

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t LSHo Ao Hi SAkv&A jAMg0PA -aA1-n1G

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Analysts

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Contacts

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Ks t I ULTHaATHOCaAOt AUOCo AKLt S I s CLt ATHI s t S HTwANH SUHt At Ho SAt LS N) TANOt ADOOo E"T
Ks i CI LS ONTAt ODDHNSAONASUHATs SLi CSEAOpALNAN3 HTSDHNSApOt ALNEAKLt S I s CLt
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SUHAH©KHI SLS ONALNo As No Ht TSLNo N) ASULSAHLI UAN3 HTSOt A8 CCaA8 SUAb s HAt Lt HaADLbHAST
O8 NATSs o EALNo AH3 LCs LS ONAOpAHLI UATHI s t SEASULSATAs No Ht At ONT o Ht LS ONApOt
Ks t I ULTHaAUOCo N) aAOt ATLCHwA

DOOo E"TAt t Ho SAt LS N) TALNo ADOOo E"TAKs i CI LS ONTALt HANOSANSHNo Ho ApOt As THAt EAt HSL C
N3 HTSOt TALNo ASA8 Os Co At HAt HI bCHTTApOt At HSL CAN3 HTSOt TASOAt ONT o Ht ADOOo E"TAt t Ho S
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8 UOCHAOt ANAKLt SaANALNEApOt DAOt ADLNNHt AOt At EALNEADHLNTA8 ULSTOH3 Ht aAt EALNEAKHt TON
8 SUOs SADOOo E"TAKt Ot A8 t SSHNAt ONTHNSwA

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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.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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

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.

STANDARD & POOR'S

Global Credit Portal®
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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.

McGRAW-HILL

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Global Credit Portal®
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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.

STANDARD & POOR'S

Global Credit Portal®
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September 30, 2010

Summary:

Mountain States Health Alliance, TN's Series 2007B Bonds Rating Raised To 'AAA/A-1+'; Joint Criteria

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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 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.

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January 19, 2011

Johnson City Health and Educational Facilities Board, Tennessee Mountain States Health Alliance; Joint Criteria; System

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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.

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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

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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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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

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.

STANDARD & POOR'S RATINGS SERVICES

RatingsDirect®

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.

STANDARD & POOR'S RATINGS SERVICES

RatingsDirect®

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

RatingsDirect®

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 & POOR'S
RATINGS SERVICES

RatingsDirect®

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

RatingsDirect®

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.

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

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.

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.

Fiscal Year ended June 30, 2013:

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.

Fiscal Year ended June 30, 2014:

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.

<u>Fiscal Year ended June 30, 2013</u>:

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.

<u>Fiscal Year ended June 30, 2014</u>:

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.

<u>Fiscal Year ended June 30, 2015</u>:

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.

<u>Attachments:</u>

- 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

Exhibit 11.5

Attachment A

Wellmont 2011 Bonds Official Statement for 2011 Bonds

NEW ISSUE – BOOK ENTRY ONLY RATINGS: See "RATINGS" herein

$76,165,000
THE HEALTH, EDUCATIONAL AND HOUSING FACILITIES BOARD OF THE COUNTY OF SULLIVAN, TENNESSEE
Hospital Revenue Refunding Bonds (Wellmont Health System Project), Series 2011

Bond Issuer. The Bonds are being issued by The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee (the "Issuer").

Beneficiary of Financing. The Bonds are being issued to provide financing for the benefit of Wellmont Health System (the "Corporation").

Wellmont Health System

Purpose of Financing. The Bonds will be issued for the purpose of refunding bonds previously issued to provide financing for the benefit of the Corporation. See "THE FINANCING PLAN".

Financing Documents. The Bonds are being issued pursuant to a Bond Trust Indenture dated as of May 1, 2011 (the "Indenture") between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Proceeds of the Bonds will be loaned to the Corporation pursuant to a Loan Agreement dated as of May 1, 2011 (the "Loan Agreement") between the Issuer and the Corporation. The loan repayment obligation of the Corporation will be evidenced and secured by a promissory note (the "Series 2011 Obligation") issued by the Corporation as an obligation under the Master Indenture described herein.

Source of Payment and Security. The Bonds will be limited obligations of the Issuer payable solely out of payments by the Corporation pursuant to the Loan Agreement and payments by the Obligated Group pursuant to the Series 2011 Obligation. Payment of the Bonds is secured by the trust estate established under the Indenture, which includes (i) rights of the Issuer under the Loan Agreement and the Series 2011 Obligation, and (ii) money in the funds and accounts established under the Indenture. The Series 2011 Obligation and all other obligations issued under the Master Indenture will be secured by a pledge and assignment of gross receipts of the Obligated Group and a mortgage on certain operating assets of the Obligated Group. See "SOURCE OF PAYMENT AND SECURITY".

The Bonds will not be general or full faith and credit obligations of the Issuer. The Bonds will be limited obligations of the Issuer payable solely out of the sources identified in the Indenture. Neither the State of Tennessee nor any of its political subdivisions, agencies or instrumentalities (including without limitation Sullivan County, Tennessee) is liable in any way for payment of the Bonds.

Pricing Terms and Payment Dates. Pricing information for the Bonds, including principal maturities, interest rates, payment dates and authorized denominations, is shown on the inside cover of this Official Statement.

Form and Date of Delivery. The Bonds are being issued under the book entry system maintained by The Depository Trust Company ("DTC"). The Bonds are expected to be delivered on May 5, 2011.

Redemption. The Bonds are subject to redemption prior to maturity as herein described.

Legal Opinions. McGuireWoods LLP, Richmond, Virginia, has served as bond counsel and will deliver its opinion with respect to the Bonds in substantially the form attached as APPENDIX D. In connection with the issuance of the Bonds, Penn, Stuart & Eskridge, A Professional Corporation, Bristol, Tennessee, has served as counsel to the Issuer, Hunter, Smith & Davis, LLP, Kingsport, Tennessee, has served as counsel to the Corporation and the Obligated Group, and Presley Burton & Collier, LLC, Birmingham, Alabama, has served as counsel to the Underwriter.

Tax Status. In the opinion of Bond Counsel, under existing law and subject to conditions described in the sections herein entitled "TAX STATUS" (1) interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), (2) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and (3) interest on the Bonds will be included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed thereon. In the opinion of Bond Counsel, under the existing laws of the State of Tennessee, the Bonds and the interest thereon are exempt from all State of Tennessee state, county and municipal taxation except for inheritance, transfer and estate taxes and except to the extent that the Bonds and the interest thereon are included within the measure of certain privilege and excise taxes imposed under Tennessee law. See the section herein entitled "TAX STATUS."

Risk Factors. For a description of certain risk factors involved in an investment in the Bonds, see "RISK FACTORS".

Underwriter. The Bonds are being purchased from the Issuer by the following underwriter:

BofA Merrill Lynch

The date of this Official Statement is May 2, 2011.

$76,165,000
The Health, Educational and Housing Facilities
Board of the County of Sullivan, Tennessee
Hospital Revenue Refunding Bonds
(Wellmont Health System Project),
Series 2011

PRICING INFORMATION

$76,165,000 Term Bonds

Maturity (September 1)	Principal Amount	Interest Rate	Price	Yield	Initial CUSIP Number
2026	$42,385,000	6.00%	100.00%	6.00%	865293 AG9
2032	33,780,000	6.50%	100.00%	6.50%	865293 AH7

Date of Bonds. The Bonds will be dated as of the date of their initial delivery. There will be no accrued interest payable as part of the initial offering price.

Authorized Denominations. The Bonds may be issued in denominations of $5,000 or any integral multiple thereof.

Interest Payment Dates. Interest on the Bonds is payable on March 1 and September 1 of each year, beginning September 1, 2011.

Principal Payment Dates. The Bonds mature on September 1 in years and amounts as shown above.

Redemption Prior to Maturity. The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS—Redemption Prior to Maturity."

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OFFICIAL STATEMENT

Regarding

$76,165,000
The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee Hospital Revenue Refunding Bonds (Wellmont Health System Project), Series 2011

INTRODUCTION

This Official Statement provides information for use in connection with the offering by The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee (the "Issuer") of its $76,165,000 Hospital Revenue Refunding Bonds (Wellmont Health System Project), Series 2011 (the "Bonds"). The Issuer is a public corporation organized under the laws of the State of Tennessee. The Bonds will be issued pursuant to a Bond Trust Indenture dated as of May 1, 2011 (the "Indenture") between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (in such capacity, the "Trustee").

The Bonds will be issued to provide financing for the benefit of Wellmont Health System, a Tennessee nonprofit corporation and a 501(c)(3) organization under the Internal Revenue Code (the "Corporation"). The Corporation is headquartered in Kingsport, Tennessee and operates a health care delivery system that includes six acute care hospitals and one critical access hospital that serve northeast Tennessee and southwest Virginia.

The Bonds are being issued for the purpose of refunding bonds previously issued to provide financing for the benefit of the Corporation. Proceeds of the Bonds will also be used to pay costs incurred in connection with the issuance of the Bonds. See "THE FINANCING PLAN".

The proceeds of the Bonds will be loaned by the Issuer to the Corporation pursuant to a Loan Agreement dated as of May 1, 2011 (the "Loan Agreement") between the Issuer and the Corporation. Pursuant to the Loan Agreement the Corporation will agree to make payments at times and in amounts sufficient to pay debt service on the Bonds. The Corporation's loan repayment obligation will be evidenced by a promissory note issued as an obligation (the "Series 2011 Obligation") under the Master Indenture described below.

The Corporation and certain of its affiliates have entered into a Master Trust Indenture dated as of May 1, 1991, as amended (the "Master Indenture"), with U.S. Bank National Association (as successor to Wachovia Bank, National Association, First Union National Bank, and Dominion Bank of Middle Tennessee), as trustee (the "Master Trustee"). The Corporation and its affiliates that have joined in the execution and delivery of the Master Indenture are referred to in the Master Indenture and this Official Statement as the "Obligated Group". The Corporation, Wellmont, Inc. ("Wellmont"), Wellmont Foundation ("Wellmont Foundation") and Wellmont Hawkins County Memorial Hospital, Inc. ("Wellmont Hawkins") are currently the only members of the Obligated Group. See APPENDIX A for information about the current members of the Obligated Group. Members of the Obligated Group are jointly and severally liable for payment of the obligations issued under the Master Indenture (the "Master Indenture Obligations"). The Master Indenture permits the addition and withdrawal of members of the Obligated Group. Pursuant to the Loan Agreement, the Corporation will covenant not to withdraw from the Obligated Group as long as any Bonds remain outstanding. See APPENDIX C for the pertinent provisions of the Master Indenture. Pursuant to the Master Indenture the Obligated Group has pledged and assigned its gross receipts as security for all Master Indenture Obligations. The Obligated Group has also entered into separate deeds of trust (the "Deeds of Trust") in the State of Tennessee and the Commonwealth of Virginia in favor of the Master Trustee that create a mortgage lien on certain operating assets of the Obligated Group. The Master Indenture and the Deeds of Trust are for the equal and proportionate benefit and security of all Obligations issued under the Master Indenture. See "SOURCE OF PAYMENT AND SECURITY—The Master Indenture".

The Bonds will be limited obligations of the Issuer payable solely out of payments by the Corporation pursuant to the Loan Agreement and payments by the Obligated Group pursuant to the Series 2011 Obligation.

The Bonds will not be general or full faith and credit obligations of the Issuer. The Bonds will be limited obligations of the Issuer payable solely out of the sources identified in the Indenture. Neither the State of Tennessee nor any of its political subdivisions, agencies or instrumentalities (including without limitation Sullivan County, Tennessee) is liable in any way for payment of the Bonds.

The Indenture will establish a trust estate (the "Trust Estate") that will be pledged and assigned to the Trustee. The Trust Estate includes (i) the Issuer's rights under the Loan Agreement and the Series 2011 Obligation, and (ii) money in the funds and accounts established under the Indenture. The Trust Estate will be held by the Trustee for the equal and proportionate benefit of the holders of the Bonds. See "SOURCE OF PAYMENT AND SECURITY—Trust Estate Created by the Indenture".

Investment in the Bonds involves a certain degree of risk. See "RISK FACTORS" for a description of those risks.

DEFINITIONS

This section contains the definition of terms frequently used in this Official Statement.

"**Act**" means Sections 48-101-301 to 48-101-318, inclusive, Tennessee Code Annotated, as amended.

"**Authorized Denominations**" means denominations of $5,000 and any integral multiple thereof.

"**Bonds**" means the bonds offered by this Official Statement.

"**Book Entry System**" means the book entry system maintained by DTC for the registration, transfer, exchange and payment of debt obligations.

"**Business Day**" means any day other than (a) a Saturday or Sunday, (b) a day on which the Bond Trustee is required or permitted by law to close, and (c) a day on which the New York Stock Exchange is closed.

"**Corporation**" means Wellmont Health System, a Tennessee nonprofit corporation and a 501(c)(3) organization under the Internal Revenue Code. The Bonds are being issued to provide financing for the benefit of the Corporation.

"**Deeds of Trust**" means the Tennessee Deed of Trust and the Virginia Deed of Trust.

"**DTC**" means The Depository Trust Company.

"**Financing Documents**" means the Indenture, the Loan Agreement, the Master Indenture, the Series 2011 Obligation and the Deeds of Trust.

"**Gross Receipts**" means the receipts, revenues and other income pledged and assigned by the Obligated Group pursuant to the Master Indenture. See "SOURCE OF PAYMENT AND SECURITY—The Master Indenture" and the definition of Gross Receipts in APPENDIX C – "SUMMARY OF THE FINANCING DOCUMENTS – SUMMARY OF THE MASTER INDENTURE".

"**Indenture**" means the Bond Trust Indenture dated as of May 1, 2011 between the Issuer and the Trustee.

"**Indenture Funds**" means any fund or account established pursuant to the Indenture. See "SOURCE OF PAYMENT AND SECURITY—Pledge Under Indenture".

"**Issuer**" means The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee, a Tennessee public corporation. The Issuer is the issuer of the Bonds.

"**Loan Agreement**" means the Loan Agreement dated as of May 1, 2011 between the Issuer and the Corporation.

"**Master Indenture**" means the Master Trust Indenture dated as of May 1, 1991, as amended and supplemented, and as further supplemented in connection with the issuance of the Bonds, between the members of the Obligated Group and the Master Trustee.

"**Master Indenture Obligations**" means all obligations issued under the Master Indenture, including the Series 2011 Obligation being issued as evidence and security for the loan repayment obligation of the Corporation.

"**Master Trustee**" means U.S. Bank, National Association (as successor to Wachovia Bank, National Association, First Union National Bank and Dominion Bank of Middle Tennessee), as trustee under the Master Indenture.

"**Mortgaged Facilities**" means property subject to the liens of the Deeds of Trust.

"**Obligated Group**" means the Corporation and the affiliates of the Corporation that have joined in the execution and delivery of the Master Indenture. The current members of the Obligated Group are the Corporation, Wellmont, Wellmont Foundation and Wellmont Hawkins. The Master Indenture permits the addition and withdrawal of members of the Obligated Group. See APPENDIX C for the pertinent provisions of the Master Indenture.

"**Series 2006A Bonds**" means the bonds previously issued to provide financing for the benefit of the Corporation that are being refunded through the issuance of the Bonds. See "THE FINANCING PLAN" herein.

"**Series 2011 Obligation**" means the Master Indenture Obligation being issued as evidence of and security for the Corporation's loan repayment obligation with respect to the Bonds.

"**Tennessee Deed of Trust**" means collectively:

(A) Deed of Trust, Security Agreement and Fixture Filing dated as of March 1, 2002, from Wellmont Health System and Kingsport Medical Center, Inc., to Jack W. Hyder, Jr., Trustee, filed for record on March 28, 2002, at 8:00 a.m. in Deed Book 1749C, page 738, securing First Union National Bank, as Master Trustee, and BNY Trust Company of Missouri, as Trustee, the sum of $244,030,000.00 as amended by (i) First Amendment to Deed of Trust, Security Agreement and Fixture Filing dated as of February 1, 2003, filed for record on Book 1947C, page 148, said Register's Office, (ii) Second Amendment to Deed of Trust, Security Agreement and Fixture Filing dated as of December 1, 2005, filed for record on Book 2342C, page 154, (iii) Third Amendment to Deed of Trust, Security Agreement and Fixture Filing dated as of June 1, 2006, filed for record on Book 2416C, page 0378, (iv) Fourth Amendment to Deed of Trust, Security Agreement and Fixture Filing dated as of November 1, 2006, filed for record on Book 2466C, page 289, said Register's Office, (v) Fifth Amendment to Deed of Trust, Security Agreement and Fixture Filing dated as of July 1, 2007, filed for record on Book 2567C, page 695, said Register's Office, and (vi) Sixth Amendment to Deed of Trust, Security Agreement and Fixture Filing dated as of November 1, 2010, filed of record in Book 2924C, page 455, said Register's Office;

(B) Deed of Trust, Security Agreement and Fixture Filing dated as of August 1, 2009, of record in Book 2807C, page 174, Office of the Register of Deeds for Sullivan County at Blountville, Tennessee, as amended by First Amendment to Deed of Trust, Security Agreement and Fixture Filing dated as of November 1, 2010, filed of record in Book 2924C, page 471, said Register's Office; and

(C) Leasehold Deed of Trust, Security Agreement and Fixture Filing dated as of August 1, 2009, of record in Book 2807C, page 205, Office of the Register of Deeds for Sullivan County at Blountville, Tennessee, as amended by First Amendment to Leasehold Deed of Trust, Security Agreement and Fixture Filing dated as of November 1, 2010, filed of record in Book 2924C, page 485, said Register's Office.

"**Term Bonds**" means Bonds subject to scheduled mandatory redemption requirements. Term Bonds are identified in the pricing information included on the inside cover of this Official Statement. See "THE BONDS—Redemption Prior to Maturity".

"**Trust Estate**" means the trust estate established under the Indenture.

"**Trustee**" means The Bank of New York Mellon Trust Company, N.A., as trustee under the Indenture.

"**Virginia Deed of Trust**" means collectively:

(A) Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of July 1, 2007, of record as Instrument No. 200703183, Office of the Circuit Court Clerk for Lee County, Virginia, as amended by First Amendment to Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of November 1, 2010, of record as Instrument No. 201003584, said Circuit Court Clerk's Office; and

(B) Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of July 1, 2007, of record as Instrument No. 0708240, Office of the Circuit Court Clerk for Wise County, Virginia, as amended by First Amendment to Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of November 1, 2010, of record as Instrument No. 1010076, said Circuit Court Clerk's Office.

"**Wellmont**" means Wellmont, Inc., a Tennessee corporation. Wellmont is a member of the Obligated Group under the Master Indenture.

"**Wellmont Foundation**" means Wellmont Foundation, a Tennessee nonprofit corporation and a 501(c)(3) organization under the Internal Revenue Code. Wellmont Foundation is a member of the Obligated Group under the Master Indenture.

"**Wellmont Hawkins**" means Wellmont Hawkins County Memorial Hospital, Inc., a Tennessee nonprofit corporation and a 501(c)(3) organization under the Internal Revenue Code. Wellmont Hawkins is a member of the Obligated Group under the Master Indenture.

THE BONDS

Date, Form of Bonds and Denominations

The Bonds will be dated as of the date of initial delivery. The Bonds will be issuable only as fully registered bonds in denominations of $5,000 or any multiple thereof.

Book Entry System

The Bonds are being issued in electronic form under the Book Entry System procedures of The Depository Trust Company ("DTC"). While the Bonds are in the Book Entry System, the method and procedures for payment of the Bonds and matters pertaining to transfers and exchanges of the Bonds will be governed by the rules and procedures of the Book Entry System. If the Book Entry System is discontinued, the Indenture contains alternate provisions for the method of payment and for transfers and exchanges. See APPENDIX F for a description of the DTC Book Entry System. See APPENDIX C – "SUMMARY OF THE FINANCING DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE 2011 BOND INDENTURE" for a description of applicable Indenture provisions if the Book Entry System is terminated.

Pricing Information

See the pricing terms on the inside cover of this Official Statement for principal maturities, interest rates and payment dates for the Bonds. The Bonds will be subject to redemption prior to maturity. See "THE BONDS–Redemption Prior to Maturity".

Fixed Interest Rates

The Bonds are being issued as fixed rate obligations.

Calculation of Interest Payments

Interest payable on the Bonds will be calculated on the basis of a 360-day year with 12 months of 30 days each.

Redemption Prior to Maturity

The Bonds will be subject to redemption prior to maturity as follows:

(a) ***Optional Redemption.*** The Bonds are subject to redemption prior to maturity by the Issuer at the option of the Corporation, on or after March 1, 2015, in whole or in part at any time, less than all of such Bonds to be selected by lot or in such other manner as the Trustee determines, at the redemption prices of par plus accrued interest to (but not including) the redemption date.

(b) ***Mandatory Bond Sinking Fund Redemption Without Premium***. The Bonds maturing September 1, 2026 are subject to mandatory redemption prior to maturity pursuant to the operation of a sinking fund, in part by lot, at a redemption price equal to the principal amount thereof, without premium, plus accrued interest to the redemption date, beginning on September 1, 2013 and on each September 1 thereafter in the years and in the principal amounts set forth below:

September 1	**Principal Amount**
2013	$ 865,000
2014	890,000
2015	990,000
2016	1,390,000
2017	1,155,000
2018	1,205,000
2019	1,285,000
2020	5,585,000
2021	5,595,000
2022	5,895,000
2023	4,090,000
2024	4,280,000
2025	4,480,000
2026 (maturity)	4,680,000

The Bonds maturing September 1, 2032 are subject to mandatory redemption prior to maturity pursuant to the operation of a sinking fund, in part by lot, at a redemption price equal to the principal amount thereof, without premium, plus accrued interest to the redemption date, beginning on September 1, 2027 and on each September 1 thereafter in the years and in the principal amounts set forth below:

September 1	Principal Amount
2027	$ 4,980,000
2028	5,175,000
2029	5,475,000
2030	5,775,000
2031	6,075,000
2032 (maturity)	6,300,000

In the case of any optional or extraordinary redemption or any purchase and cancellation of any term Bonds that are subject to mandatory sinking fund redemption as described above, the Issuer shall receive credit against its required Bond Sinking Fund deposits with respect to Bonds of the same maturity and interest rate as those being redeemed or purchased.

(c) ***Extraordinary Redemption in Whole or in Part Without Premium***. The Bonds are also subject to redemption prior to maturity in the event of damage to or destruction of the Property of any member of the Combined Group or any part thereof or the condemnation of the Facilities or any part thereof, if the Net Proceeds of insurance or condemnation received in connection therewith to the extent that Net Proceeds are not applied either to any lawful purposes of the Combined 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 called for redemption in the events referred to in the preceding sentence of this paragraph, the Bonds will be subject to redemption at any time, in whole or in part, and if in part, the Corporation may decide the order of maturity or portion of each maturity to be redeemed by lot. 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 Corporation, the Trustee will redeem Bonds then Outstanding pro rata based on the then Outstanding principal amount in the inverse order of maturity thereof.

Notice of Redemption. While the Bonds are in book-entry form, notice of redemption will be given only to DTC or its nominee. See "THE BONDS—Book Entry System." Notice of the call for redemption will be given by the Trustee by mailing a copy of the redemption notice (a) by first class mail at least 30 days but not more than 60 days prior to the date fixed for redemption to the owner of each Bond to be redeemed in whole or in part at the address shown on the registration books and (b) by registered or certified mail, facsimile (or other electronic means), or overnight delivery service at least 30 days prior to the date fixed for redemption, to certain following registered securities depositories then in the business of holding substantial amounts of bonds of the type comprising the Bonds and to one or more national information services that disseminate notices of redemption of bonds such as the Bonds. No defect in any notice delivered pursuant to clause (b) above nor any failure to give all or any portion of such notice will in any manner defeat the effectiveness of a call for redemption if notice is given as prescribed in clause (a) above. Any notice mailed as described above will be conclusively presumed to have been duly given, whether or not the owner receives the notice. Failure to mail any such notice, or the mailing of defective notice, to any owner will not affect the proceeding for redemption as to any owner to whom proper notice is mailed.

If at the time of mailing of notice of any optional redemption there has not been deposited with the Trustee moneys sufficient to redeem all the Bonds called for such redemption, such notice may state that it is conditional on the deposit of moneys with the Trustee not later than the redemption date, and such notice will be of no effect unless such moneys are so deposited.

Purchase of Bonds in Lieu of Redemption. The Issuer has irrevocably granted to the Corporation the option to purchase at any time, and from time to time, any Bond which is to be redeemed pursuant to the optional redemption provisions described above on the dates of such redemption and at a purchase price equal to the redemption price. To exercise this option, the Corporation must notify the Trustee not less than five Business Days before the proposed redemption date that amounts available to pay the redemption price of such Bonds shall be applied to purchase such Bonds in lieu of redemption. No notice other than the notice of redemption described under "Notice of Redemption" above must be given in connection with any such purchase in lieu of redemption. On the date fixed for redemption, the Trustee will purchase the Bonds to be redeemed in lieu of such redemption and following such purchase, shall cause such Bonds to be registered in the name of or upon the direction of the

Corporation and deliver them to or as directed by the Corporation. No purchase of Bonds as described in this paragraph will operate to extinguish the indebtedness of the Issuer evidenced thereby. Bonds purchased in lieu of redemption will continue to bear interest at the interest rate in effect on the date of such purchase in lieu of redemption.

SOURCE OF PAYMENT AND SECURITY

Pledge Under Indenture

Pursuant to the Indenture, to secure the payment of the principal of, premium, if any, and interest on the Bonds, the Issuer grants, assigns, transfers, pledges, sets over and confirms and grants a security interest in the property described below (the "Trust Estate") to the Trustee:

(a) All right, title and interest of the Issuer in and to the Series 2011 Obligation and any additional Obligations pledged under the Indenture and all sums payable in respect of the indebtedness evidenced thereby.

(b) All right, title and interest of the Issuer in and to the Loan Agreement (except for Reserved Rights), including, but not limited to, the present and continuing right to make claim for, collect, receive and receipt for any of the sums, amounts, income, revenues, issues and profits and any other sums of money payable or receivable under the Loan Agreement, to bring actions and proceedings thereunder or for the enforcement thereof, and to do any and all things which the Issuer is or may become entitled to do under the Loan Agreement.

(c) All right, title and interest of the Issuer in moneys and securities from time to time held by the Trustee under the terms of the Indenture, other than moneys held in the Rebate Fund.

(d) Any and all other property rights and interests of every kind and nature from time to time hereafter by delivery or by writing of any kind granted, bargained, sold, alienated, demised, released, conveyed, assigned, transferred, mortgaged, pledged, hypothecated or otherwise subjected to the Indenture, as and for additional security thereunder, by the Corporation or any other person on its behalf or with its written consent or by the Issuer or any other person on its behalf or with its written consent.

The Bonds are limited obligations of the Issuer and are payable solely from the Trust Estate. The Corporation agrees under the Loan Agreement and in the Series 2011 Obligation to make payments thereunder directly to the Trustee.

Pledge of Gross Receipts

The Series 2011 Obligation, along with all other Obligations issued under the Master Indenture, including but not limited to the Series 2003 Obligation, the Series 2005 Obligation, the Series 2006C Obligation, the Series 2007A Obligation and the Series 2010 Obligation, are secured on a parity by a security interest in all of the right, title and interest of the Obligated Group in and to its Gross Receipts. "Gross Receipts" are defined in the Master Indenture as: all receipts, revenues, income, gifts, donations, contributions, grants, bequests, pledges, chattel paper and instruments, and other monies received by or on behalf of the Obligated Group, including, but without limiting the generality of the foregoing, (i) revenues derived from the ownership or operation of Property including insurance and condemnation proceeds with respect to Property or any portion thereof, and (ii) all rights to receive the same, whether in the form of accounts, accounts receivable, contract rights or other rights and the proceeds of such rights, whether now owned, or held or hereafter coming into existence; provided, however, that (a) gifts, contributions, grants (including Hill-Burton Grants), bequests and pledges heretofore or hereafter made and designated or specified by the granting authority, donor or maker thereof as being for specified purposes (inconsistent with the payment of debt service on Indebtedness) and income derived therefrom to the extent required by such designation or specification, and (b) revenues, receipts and income derived from the ownership and operation of Property which secures Non-Recourse Indebtedness shall be excluded from Gross Receipts. See "SOURCE OF PAYMENT AND SECURITY—The Master Indenture" and APPENDIX C – "SUMMARY OF THE FINANCING DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE."

Deeds of Trust

The Series 2011 Obligation, along with all other Obligations issued under the Master Indenture, including but not limited to the Series 2003 Obligation, the Series 2005 Obligation, the Series 2006C Obligation, the Series 2007A Obligation and the Series 2010 Obligation (collectively, the "Obligations"), are also secured on a parity by the Tennessee Deed of Trust and the Virginia Deed of Trust (collectively, the "Deeds of Trust") which pledge, grant and convey a security interest in certain real estate and the improvements located thereon (the "Mortgaged Facilities") owned by the Corporation, subject to Permitted Liens. The Tennessee Deed of Trust does not encumber all real estate and the improvements located thereon which are owned or leased by the Corporation in the State of Tennessee. The Virginia Deed of Trust does not encumber all real estate and the improvements located thereon which are owned or leased by the Corporation in the Commonwealth of Virginia.

The Mortgaged Facilities that will be subject to the lien of the Tennessee Deed of Trust are the following facilities: Wellmont Bristol Regional Medical Center and Wellmont Holston Valley Regional Medical Center. The Mortgaged Facilities that will be subject to the lien of the Virginia Deed of Trust are the following facilities: Mountain View Regional Medical Center and Lee Regional Medical Center. Only these facilities are subject to the Deeds of Trust, and certain adjacent medical office buildings and other non-hospital facilities not listed here are not subject to the Deeds of Trust. The Corporation and the Obligated Group also own and lease certain undeveloped land and other real property not subject to the Tennessee Deed of Trust or the Virginia Deed of Trust, including two additional hospitals.

Series 2011 Obligation

Payments on the Series 2011 Obligation pledged under the Indenture will be the joint and several obligation of the members of the Obligated Group. Notwithstanding uncertainties as to the enforceability of the covenants of the members of the Obligated Group in the Master Indenture to be jointly and severally liable for each Obligation (as described under "RISK FACTORS—Limitation on Enforcement of Remedies – *Limitations on Joint and Several Liability of Obligated Group Members*"), the accounts of the members of the Obligated Group will be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Indenture (including tests relating to the incurrence of Additional Indebtedness) are met. The members of the Obligated Group currently consist of the Corporation, Wellmont Hawkins, Wellmont and Wellmont Foundation.

Parity Debt

The Corporation's obligation under the Loan Agreement to pay debt service on the Bonds will be secured by the Series 2011 Obligation. The Series 2011 Obligation is being issued on a parity with Master Indenture obligations issued to secure the following: (a) $12,966,415.15 outstanding principal amount of Series 2010 Bonds, (b) $55,000,000 outstanding principal amount of the Series 2007A Bonds, (c) $200,000,000 outstanding principal amount of the Series 2006C Bonds, (d) $59,580,000 outstanding principal amount of the Series 2005 Bonds, (e) $33,035,000 outstanding principal amount of the Series 2003 Bonds, and (f) any Additional Indebtedness issued, from time to time, under and pursuant to the Master Indenture.

The Loan Agreement provides that the Corporation is required to make designated payments to the Trustee for deposit into the Bond Fund in amounts sufficient to pay the principal of and interest on the Bonds when due.

Limited Obligations

The Bonds and the interest and premium, if any, payable thereon do not constitute a debt or liability of Sullivan County, the State of Tennessee or any political subdivision thereof other than the Issuer, but are payable solely from the funds pledged therefor in accordance with the Indenture. The issuance of the Bonds does not directly, indirectly or contingently, obligate the County, the State or any political subdivision thereof to levy any form of taxation for the payment thereof or to make any appropriation for their payment. The Bonds and the interest and premium, if any, payable thereon do not now and will never constitute a debt of the State within the meaning of the Constitution or the statutes of the State and do not now and will never constitute a charge against the credit or taxing power of the County, the State or any political subdivision thereof. Neither the County nor the State will in any event be liable for the payment of the principal of, premium, if any, or interest on the Bonds or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Issuer. No breach by the Issuer of any such pledge, mortgage, obligation or agreement may impose any pecuniary liability upon the County or the State or any charge upon its general credit or against its taxing power. The Issuer has no taxing power.

The Master Indenture

The Series 2011 Obligation will be issued as an Obligation under the Master Indenture. The members of the Obligated Group currently consist of the Corporation, Wellmont Hawkins, Wellmont and Wellmont Foundation. The members of the Obligated Group are jointly and severally liable for the payment of the Series 2011 Obligation, all other Obligations issued under the Master Indenture and for performance of the covenants and agreements set forth in the Master Indenture and the Eleventh Supplemental Master Indenture. Subject to certain conditions, the Master Indenture will permit additional entities to become members of the Obligated Group thereunder and will permit members of the Obligated Group to designate any or all of their respective affiliates as Restricted Affiliates for the purposes of the Master Indenture. Members of the Obligated Group will also be obligated to cause their respective Restricted Affiliates (such Restricted Affiliates, together with the Obligated Group, being herein referred to collectively as the "Combined Group") to make such payments and perform such covenants and agreements as are necessary for the Combined Group to comply with the Master Indenture. The Master Indenture also permits members of the Obligated Group and Restricted Affiliates to withdraw from the Combined Group under specified conditions, whereupon such withdrawing members of the Obligated Group and Restricted Affiliates will cease to be bound by the Master Indenture and no longer obligated to pay the sums due under all Obligations, including the Series 2011 Obligation.

See APPENDIX C – "SUMMARY OF THE FINANCING DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE" for further information regarding the Master Indenture, including a discussion of the conditions under which entities will be permitted to join or withdraw from the Combined Group, the provisions regarding the incurrence of and security for additional Obligations or other Indebtedness and the various financial and operating covenants and agreements to be performed by the Combined Group.

At the time of issuance of the Series 2011 Obligation, the only other Obligations Outstanding under the Master Indenture will be the Series 2003 Obligation, the Series 2005 Obligation, the Series 2006C Obligation, the Series 2007A Obligation and the Series 2010 Obligation.

Additional Indebtedness Under the Master Indenture

The Master Indenture permits the 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 an Obligation. See APPENDIX C – "SUMMARY OF THE FINANCING DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE." Additional Indebtedness may be issued to the Issuer or to persons other than the Issuer. Except to the extent entitled to the benefits of additional security as permitted by the Master Indenture and except for Subordinated Indebtedness, all Obligations issued under the Master Indenture will be equally and ratably secured thereby.

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 healthcare 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 Financing Documents. The Master Indenture provides that Supplemental Master Indentures pursuant to which one or more series of 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 Obligations secured thereby.

Limitations on Remedies

The rights of the Trustee, the Master Trustee, the holders of Master Indenture Obligations, and the holders of the Bonds may be limited by (i) bankruptcy, insolvency, or other similar laws affecting the enforcement of creditors' rights and (ii) general principles of equity, including the exercise of judicial discretion in appropriate cases. See also "RISK FACTORS".

THE FINANCING PLAN

General

The Bonds are being issued for the purpose of refunding bonds previously issued to provide financing for the Corporation. Proceeds of the Bonds will also be used to pay costs incurred in connection with the issuance of the Bonds. See "Sources and Uses of Funds".

The Refunding Plan

To provide financing for the benefit of the Corporation, the Issuer previously issued its Hospital Revenue Refunding Bonds (Wellmont Health System Project), Tax-Exempt Series 2006A (the "Series 2006A Bonds"), which are now outstanding in the aggregate principal amount of $76,595,000. The Series 2006A Bonds are not subject to optional redemption until March 1, 2013. In order to refund the Series 2006A Bonds, the Corporation made a tender offer to the holders of the Series 2006A Bonds. The holders of all outstanding Series 2006A Bonds have agreed to tender their Series 2006A Bonds to the Corporation. Proceeds of the Bonds will be used to pay the purchase price of Series 2006A Bonds tendered for purchase. All outstanding Series 2006A Bonds will be purchased by the Corporation on the date of issuance of the Bonds and will be immediately surrendered to the trustee for the Series 2006A Bonds for retirement and cancellation.

Sources and Uses of Funds

The estimated sources and uses of funds for the financing plan are as follows (rounded to the nearest whole dollar):

Table 1. Sources and Uses of Funds

Sources of Funds	
Principal amount of Bonds	$76,165,000
Total sources	$76,165,000
Uses of Funds	
Purchase and retirement of Series 2006A Bonds	$74,942,165
Costs of issuance of the Bonds (1)	1,222,835
Total uses	$76,165,000

Note (1) Includes underwriter's discount, legal and accounting fees, printing costs, rating agency fees, and other costs of issuance. Costs of issuance in excess of available Bond proceeds will be paid by the Corporation with its own funds.

Debt Service Requirements on the Bonds

The following table contains the estimated debt service requirements on the Bonds.

Table 2. Debt Service Requirements on Bonds

Bond Year Ending September 1	Debt Service on Bonds		Total Debt Service
	Principal	Interest	
2011	$ 0	$ 1,526,947	$ 1,526,947
2012	0	4,738,800	4,738,800
2013	865,000	4,738,800	5,603,800
2014	890,000	4,686,900	5,576,900
2015	990,000	4,633,500	5,623,500
2016	1,390,000	4,574,100	5,964,100
2017	1,155,000	4,490,700	5,645,700
2018	1,205,000	4,421,400	5,626,400
2019	1,285,000	4,349,100	5,634,100
2020	5,585,000	4,272,000	9,857,000
2021	5,595,000	3,936,900	9,531,900
2022	5,895,000	3,601,200	9,496,200
2023	4,090,000	3,247,500	7,337,500
2024	4,280,000	3,002,100	7,282,100
2025	4,480,000	2,745,300	7,225,300
2026	4,680,000	2,476,500	7,156,500
2027	4,980,000	2,195,700	7,175,700
2028	5,175,000	1,872,000	7,047,000
2029	5,475,000	1,535,625	7,010,625
2030	5,775,000	1,179,750	6,954,750
2031	6,075,000	804,375	6,879,375
2032	6,300,000	409,500	6,709,500
Total	**$76,165,000**	**$69,438,697**	**$145,603,697**

THE ISSUER

The Issuer was incorporated as a public nonprofit corporation on August 31, 1979, by Sullivan County, Tennessee (the "County"), pursuant to the Act. The Issuer was organized to assist hospital institutions in providing facilities and structures for the development and maintenance of the public health, thereby providing County residents with access to adequate medical care and hospital facilities to improve their welfare, prosperity, health and living conditions. The Issuer is authorized by the Act to issue revenue bonds payable solely from the revenues and receipts from such facilities and structures or other sources designated by the Issuer and secured by a pledge of such revenues and receipts. The Issuer may issue bonds to refund any prior issues of its bonds.

Neither the County nor the State will in any event be liable for the payment of principal of, premium, if any, or interest on the Bonds or other bonds issued by the Issuer or for the performance of any pledge, mortgage, obligation or agreement of any kind undertaken by the Issuer. None of the bonds issued by the Issuer, including the Bonds, and none of the Issuer's agreements and obligations are an indebtedness of the County, the State or any political subdivision thereof within the meaning of any constitutional or statutory provision or otherwise. The Issuer has no taxing power.

The Issuer has full power and authority under the Act to enter into the Indenture and the Loan Agreement and to perform its covenants and obligations thereunder.

The Issuer is governed by a seven member Board of Directors appointed by the Board of Commissioners of the County. Members of the Board of Directors serve staggered 6-year terms.

Although the Issuer has consented to the use of this Official Statement in connection with the offer and sale of the Bonds, it has not participated in the preparation of this Official Statement and makes no representation as to its accuracy or completeness.

THE CORPORATION AND THE OBLIGATED GROUP

The Corporation is a nonprofit corporation under the laws of the State of Tennessee and is a 501(c)(3) organization under the Internal Revenue Code. Wellmont Foundation and Wellmont Hawkins are also nonprofit corporations organized under the laws of the State of Tennessee and are also 501(c)(3) organizations under the Internal Revenue Code. Wellmont is a Tennessee corporation. The Corporation, Wellmont, Wellmont Foundation and Wellmont Hawkins are currently the only members of the Obligated Group. For information about the Corporation and the Obligated Group, see APPENDIX A.

RISK FACTORS

General

The Bonds are special limited obligations of the Issuer payable solely from the revenues pledged to the payment of the Bonds in accordance with the Indenture, as described herein. The Bonds do not constitute a debt of the Issuer within any constitutional or statutory provision and do not give rise to a pecuniary liability of the Issuer. No Holder of any of the Bonds shall ever have the right to enforce payment of the Bonds against any property of the Issuer or any funds other than those expressly pledged under the Indenture to the payment thereof. The Bonds are payable solely from and secured by the Trust Estate, as described under "SOURCE OF PAYMENT AND SECURITY."

There are certain factors herein that may adversely affect the Corporation's ability to make timely payments under the Loan Agreement and the Obligated Group's obligation to make timely payments on the Series 2011 Obligation. Such failure could, among other things, result in an acceleration of the Bonds. No representation or assurance can be made that revenues will be realized by the Corporation or the Obligated Group in amounts sufficient to pay maturing principal of, premium, if any, and interest due on the Bonds or payment of the Series 2011 Obligation. Purchasers of the Bonds should bear in mind that the occurrence of any number of events, some of which are specified in more detail below, could adversely affect the revenue-producing ability of the Corporation and the Obligated Group. Further, economic and other conditions, including demand for hospital services, the ability of the Corporation and the Obligated Group to provide the services required by patients, physicians' confidence in the Corporation and the Obligated Group, economic conditions in the service area of the Corporation and the Obligated Group, competition, rates, costs, third-party reimbursement and governmental regulations, may adversely affect the Corporation's and the Obligated Group's revenues and, in turn, the payment of principal of, premium, if any, and interest on the Bonds and payment of the Series 2011 Obligation.

THERE CAN BE NO ASSURANCE THAT THE REVENUES OF THE CORPORATION AND THE OBLIGATED GROUP OR UTILIZATION OF THE OBLIGATED GROUP'S HEALTHCARE FACILITIES WILL NOT DECREASE.

The following risk factors, among others, should be considered in evaluating the ability of the Obligated Group, including the Corporation, to provide sufficient revenues for payment of the principal of, premium, if any, and interest on the Bonds and payment of the Series 2011 Obligation. This discussion of risk factors is not, and is not intended to be, exhaustive.

Market Risk

There can be no assurance that there will be a secondary market for the Bonds. In the absence of such a market for the Bonds could result in investors not being able to resell the Bonds should they need to.

Impact of Market Turmoil

The disruption of the credit and financial markets in the last several years has led to volatility in the securities markets, significant losses in investment portfolios, increased business failures and consumer and business bankruptcies, and is a major cause of the current economic crisis. In response to that disruption, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Financial Reform Act") was enacted and approved by the President on July 21, 2010. The Financial Reform Act includes broad changes to the existing financial regulatory structure, including the creation of new federal agencies to identify and respond to risks to the financial stability of the United States. Additional legislation is pending or under active consideration by Congress and regulatory action is being considered by various Federal agencies and the Federal Reserve Board and foreign governments, which are intended to increase the regulation of domestic and global credit markets. The effects of the Financial Reform Act and of these legislative, regulatory and other governmental actions, if implemented, are unclear.

The health care sector, including the Corporation and the Obligated Group, has been materially and adversely affected by this market turmoil. The consequences of this market turmoil have generally included, among other things, realized and unrealized investment portfolio losses, increased borrowing costs and periodic disruption of access to the capital markets.

The Corporation and the Obligated Group have experienced some impact from current economic conditions, but the payor mix of the Corporation and the Obligated Group is stable. Bad debt of the Corporation and the Obligated Group has increased as employers and insurers shift additional financial responsibility to the patient. Patients have delayed some elective business but outpatient surgical volume is up 6.6 percent for the six-month period ended December 31, 2010 over the six-month period ended December 31, 2009. While the budgets for the States of Tennessee and Virginia are under stress, reductions in amounts provided by the State of Tennessee to the Corporation and the Obligated have been offset by the assessment fee. The Corporation and the Obligated Group expect to receive a cut of approximately $450,000 for the upcoming year from the State of Virginia. See "RISK FACTORS - Patient Service Revenues" and in APPENDIX A – "Historical Financial Information", and "Management's Discussion and Analysis of Financial Information".

In February 2009, the American Recovery and Reinvestment Act of 2009 ("H.R. 1") was enacted and includes several provisions that are intended to provide financial relief to the health care sector, most of which will be spent by 2011. These funds include, among other things, a temporary increase in Federal payments to states to fund the Medicaid program, a requirement that states promptly reimburse healthcare providers, and a subsidy to the recently unemployed for health insurance premium costs. H.R. 1 also establishes a framework for the implementation of a nationally-based health information technology program. For more information on this program, see "The HITECH Act" below.

Health Care Reform

In March, 2010, the Patient Protection and Affordable Care Act (the "Health Care Reform Act") was enacted and approved by the President. Some of the provisions of the Health Care Reform Act took effect immediately, while others will take effect or will be phased in over time, ranging from a few months following approval to ten years. Because of the complexity of the Health Care Reform Act generally, additional legislation is likely to be considered and enacted over time. The Health Care Reform Act will also require the promulgation of substantial regulations with significant effects on the health care industry and third-party payors. In response, third-party payors and suppliers and vendors of goods and services to health care providers are expected to impose new and additional contractual terms and conditions. Thus, the health care industry will be subjected to significant new statutory and regulatory requirements and contractual terms and conditions, and consequently to structural and operational changes and challenges, for a substantial period of time.

A significant component of the Health Care Reform Act is reformation of the sources and methods by which consumers will pay for health care for themselves and their families and by which employers will procure health insurance for their employees and dependents and, as a consequence, expansion of the base of consumers of health care services. One of the primary drivers of the Health Care Reform Act is to provide or make available, or subsidize the premium costs of, health care insurance for some of the millions of currently uninsured (or underinsured) consumers who fall below certain income levels. The Health Care Reform Act proposes to accomplish that objective through various provisions, summarized as follows: (i) the creation of active markets (referred to as exchanges) in which individuals and small employers can purchase health care insurance for themselves and their families or their employees and dependents, (ii) providing subsidies for premium costs to individuals and families based upon their income relative to federal poverty levels, (iii) mandating that individual consumers obtain and certain employers provide a minimum level of health care insurance, and providing for penalties or taxes on consumers and employers that do not comply with these mandates, (iv) expansion of private commercial insurance coverage generally through such reforms as prohibitions on denials of coverage for pre-existing conditions and elimination of lifetime or annual cost caps, and (v) expansion of existing public programs, including Medicaid, for individuals and families. The Congressional Budget Office ("CBO") has estimated that in federal fiscal year 2015, 19 million consumers who are currently uninsured will become insured, followed by an additional 11 million consumers in federal fiscal year 2016. To the extent all or any of those provisions produce the expected result, an increase in utilization of health care services by those who are currently avoiding or rationing their health care can be expected and bad debt expenses may be reduced. Associated with increased utilization will be increased variable and fixed costs of providing health care services, which may or may not be offset by increased revenues.

Some of the specific provisions of the Health Care Reform Act that may affect hospital operations, financial performance or financial conditions, including those of the Members of the Obligated Group, are described below. This listing is not, is not intended to be, nor should be considered by the reader as, comprehensive. The Health Care Reform Act is complex and comprehensive, and includes a myriad of new programs and initiatives and changes to existing programs, policies, practices and laws. At this time, management of the Corporation cannot predict the aggregate effect of the Health Care Reform Act upon the Obligated Group, as a whole.

- Commencing upon enactment through September 30, 2019, the annual Medicare market basket updates for hospitals will be reduced. Beginning October 1, 2011, the market basket updates will be subject to productivity adjustments. The reductions in market based updates and the productivity adjustments will have a disproportionately negative effect upon those providers that are relatively more dependent upon Medicare than other providers. Additionally, the reductions in market basket updates will be effective prior to the periods during which insurance coverage and the insured consumer base will expand, which may have an interim negative effect on revenues. The combination of reductions to the market basket updates and the imposition of the productivity adjustments may, in some cases and in some years, result in reductions in Medicare payment per discharge on a year-to-year basis.

- Commencing October 1, 2010 through September 30, 2019, payments under the "Medicare Advantage" programs (Medicare managed care) will be reduced, which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans. Those beneficiaries may terminate their participation in those plans and opt for the traditional Medicare fee-for-service program. The reduction in payments to Medicare Advantage programs may also lead to decreased payments to providers by managed care companies operating Medicare Advantage programs. All or any of these outcomes will have a disproportionately negative effect upon those providers with relatively high dependence upon Medicare managed care revenues.

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

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

- Expansion of Medicaid programs to a broader population with incomes up to 133% of federal poverty levels. CBO has estimated that 16 million consumers who are currently uninsured will become newly eligible for Medicaid through 2019 as a result of this expansion. Providers operating in markets with large Medicaid and uninsured populations are anticipated to benefit from increased revenues resulting from increased utilization and reductions in bad debt or uncompensated care. The increase in utilization can also be expected to increase in costs of providing that care, which may or may not be balanced by increased revenues.

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

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

- Commencing October 1, 2011, health care insurers will be required to include quality improvement covenants in their contracts with hospital providers, and will be required to report their progress on such actions to the Secretary of Health and Human Services ("HHS"). Commencing January 1, 2015, health care insurers participating in the health insurance exchanges will be allowed to contract only with hospitals that have implemented programs designed to ensure patient safety and enhance quality of care. The effect of these provisions upon the process of negotiating contracts with insurers or the costs of implementing such programs cannot be predicted.

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

- Effective for tax years commencing immediately after approval, additional requirements for tax-exemption will be imposed upon tax-exempt hospitals, including obligations to adopt and publicize a financial assistance policy; limit charges to patients who qualify for financial assistance to the amount generally charged to insured patients; and control the billing and collection processes. Additionally, effective for tax years commencing January 1, 2013, tax-exempt hospitals must conduct a community needs assessment and adopt an implementation strategy to meet those identified needs. Failure to satisfy these conditions may result in the imposition of fines and the loss of tax-exempt status.

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

The Health Care Reform Act creates a Center for Medicare and Medicaid Innovation to test innovative payment and service delivery models and to implement various demonstration programs and pilot projects to test, evaluate, encourage and expand new payment structures and methodologies to reduce health care expenditures while maintaining or improving quality of care, including bundled payments under Medicare and Medicaid, and comparative effectiveness research programs that compare the clinical effectiveness of medical treatments and develop recommendations concerning practice guidelines and coverage determinations. Other provisions encourage the creation of new health care delivery programs, such as accountable care organizations or combinations of provider organizations, which voluntarily meet quality thresholds to share in the cost savings they achieve for the

Medicare program. The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

Lawsuits have been filed and additional ones may be filed challenging the constitutionality of the Health Care Reform Act. Two federal district court judges of the United States District Court for the Eastern District of Virginia and the Northern District of Florida, respectively, have ruled that the "individual mandate," requiring most individuals to maintain a minimum level of health insurance by 2014 or be subject to a penalty, is unconstitutional, with the District Court judge for the Northern District of Florida concluding that the entire Health Care Reform Act must be declared void. On March 3, 2011, the District Court judge for the Northern District of Florida stayed his ruling pending an appeal to the 11th Circuit U.S. Court of Appeals; an appeal was subsequently filed on March 8, 2011. Similar challenges filed in other District Courts have been dismissed but are on appeal and arguments in a number of other cases remain pending. In addition, on January 19, 2011, the United States House of Representatives approved a bill to overturn the Health Care Reform Act. However, on February 6, 2011, the U. S. Senate rejected a bill to repeal the Health Care Reform Act. The ultimate outcome of these lawsuits, and any additional legislative challenges, and their effect on the Health Care Reform Act is unknown.

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

Nonprofit Healthcare Environment

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

Over the past several years, an increasing number of the operations or practices of healthcare providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations. These challenges are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the healthcare organizations. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the "IRS"), labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation. These challenges or examinations include the following, among others:

Congressional Hearings. In recent years, three congressional committees have conducted hearings and other proceedings inquiring into various practices of nonprofit hospitals and healthcare providers. The Health Care Reform Act, discussed above, contains many features from previous tax exemption reform proposals. It does not mandate specific levels of charity care for nonprofit hospitals, but it does include a set of sweeping changes applicable to charitable hospitals exempt under Section 501(c)(3) of the Code. The Health Care Reform Act (a) imposes new eligibility requirements for 501(c)(3) hospitals, coupled with an excise tax for failures to meet certain of those requirements; (b) requires mandatory IRS review of the hospital's entitlement to exemption; (c) sets forth new reporting requirements, including information related to community health needs assessments and audited financial statements; and (d) imposes further reporting requirements on the Secretary of the Treasury regarding charity care levels.

Internal Revenue Service Examination of Compensation Practices. In August 2004, the IRS announced a new enforcement effort to identify and halt abuses by tax-exempt organizations that pay excessive compensation and benefits to their officers and other insiders. The IRS announced that it would contact nearly 2,000 charities and foundations to seek more information about their compensation practices and procedures. In February 2009, the IRS issued its Hospital Compliance Project Final Report (the "IRS Final Report") based on its examination of such tax-exempt organizations. The IRS Final Report indicates that the IRS (i) will continue to heavily scrutinize executive compensation arrangements, practices and procedures and (ii) in certain circumstances, may conduct further investigations or impose fines on tax-exempt organizations.

Litigation Relating to Billing and Collection Practices. Lawsuits have been filed alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. Many of these cases have since been dismissed by the courts but a number of cases are still pending in various courts around the country with inconsistent results. While it is not possible to make general predictions, some hospitals and health systems have entered into substantial settlements. Currently, no Obligated Group Members have been named as defendants in any action alleging failure to fulfill obligations to provide charity care to uninsured patients or overcharging uninsured patients.

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

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

Charity Care

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

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

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

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

Parity Debt and Additional Indebtedness

The Bonds are secured under the Master Indenture on a parity with (a) approximately $360,581,415 aggregate outstanding principal amount of other long-term Indebtedness and (b) any Additional Indebtedness (as defined in APPENDIX C) issued, from time to time, under and pursuant to the Master Indenture. Additional debt, whether or not secured by the Master Indenture, will increase debt service requirements and could adversely affect debt service coverage on the Bonds and the availability of the Obligated Group to meet its obligations under the Series 2011 Obligation.

Limitations on Enforcement

The enforcement of the Indenture, the security interest in the funds held by the Trustee granted therein, and the rights of the Trustee in funds held under the Indenture may be limited by a number of factors, including: (a) provisions prohibiting the direct payment of amounts due to healthcare providers from Medicaid and Medicare programs to persons other than such providers; (b) certain judicial decisions which cast doubt upon the right of the Trustee, in the event of the bankruptcy of the Corporation or the Obligated Group, to collect and retain accounts receivable from Medicare, TennCare, Medicaid, and other governmental programs; (c) state and federal laws giving super priority to certain kinds of statutory liens, such as tax liens; (d) rights arising in favor of the United States of America or any agency thereof; (e) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (f) Bankruptcy Laws which may affect the right of the Trustee to collect and retain accounts receivable from Medicare, TennCare, Medicaid and other governmental programs; (g) state laws affecting the continuation of perfected and first priority security interests granted by the Corporation, the Obligated Group or the Issuer, including the Deed of Trust; and (h) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the Uniform Commercial Code as from time to time in effect in Tennessee and Virginia.

The ability of the Trustee to enforce the terms and agreements set forth in the Loan Agreement and in the Series 2011 Obligation may be limited by laws relating to bankruptcy, insolvency, reorganization or moratorium and by other similar laws affecting creditors' rights. In addition, the Trustee's ability to enforce such terms will depend upon the exercise of various remedies specified by such document which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or be limited.

The remedies available to the Trustee or to the Owners of the Bonds upon an event of default under the Indenture 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 the Bankruptcy Law, the remedies provided in the Indenture and under the Bonds may not be readily available or may be limited.

The Corporation and the Obligated Group

General. The ability of the Corporation to make the payments under the Loan Agreement, the Obligated Group to make payments on the Series 2011 Obligation sufficient to provide debt service on the Bonds and the Obligated Group to make other payments provided for under the Master Indenture depends solely upon the receipt by the Corporation and the Obligated Group of sufficient revenues from their operations in excess of their expenses of operation. A number of risks which could prevent the Corporation and the Obligated Group from receiving such amounts are outlined below. No representation or assurance can be given that revenues will be realized by the Corporation in amounts sufficient to pay principal of, premium, if any, and interest on the Bonds or the Obligated Group in amounts sufficient to pay the Series 2011 Obligation and the other amounts owed under the Master Indenture. Future economic and other conditions, including demand for healthcare services, the ability of the Corporation and the Obligated Group to provide the services required by patients, physicians' confidence in the

Corporation and the Obligated Group, return on investments made by the Corporation, including investments in other enterprises, economic developments in the service area and competition from other healthcare institutions in the service area, together with changes in rates, costs, third party reimbursement and governmental regulation, may adversely affect revenues and expenses and, consequently, the Corporation's and the Obligated Group's ability to make such payments. The future financial condition of the Corporation and the Obligated Group could also be adversely affected by, among other things, legislation, regulatory actions, increased competition from other healthcare providers, demand for healthcare services, demographic changes, changes in the local economy, the increasing cost of malpractice insurance, malpractice claims and other litigation and a number of other conditions which are unpredictable.

While an identification of all additional risk factors possibly affecting operations of the Corporation and the Obligated Group in the future cannot be accomplished, a discussion of certain risk factors follows. This discussion of risk factors is not, and is not intended to be, exhaustive. Some of the changes that are possible in the future include the following:

(a) Legislation or regulations, including federal healthcare reform legislation, which could increase the operating costs of the Corporation and the Obligated Group or further limits the payment of operating costs and the payment or reimbursement of capital costs, would adversely affect the operating costs of the Corporation and the Obligated Group.

(b) Reductions in the funding levels and reimbursement levels of the Medicare, TennCare or Medicaid programs and other legislative and regulatory changes which further reduce Medicare, TennCare or Medicaid reimbursement to hospitals. See "Patent Service Revenues - Medicare and Medicaid Programs" herein.

(c) Future contract negotiations between the Corporation and the Obligated Group, and public and private insurers, health maintenance organizations and preferred provider organizations and efforts of other entities and employers to limit hospitalization costs which could adversely affect the utilization and the level of reimbursement to the Corporation and the Obligated Group.

(d) Increased unemployment or other adverse economic conditions increased cost and decreased availability of health insurance which could increase the proportion of patients who are uninsured or who are otherwise unable to pay fully for the cost of their care, and increased numbers of patients suffering from uninsured illnesses.

(e) There have been and may be in the future a number of state and federal legislative proposals and enactments which have as one of their principal purposes the stimulation of competition in the healthcare industry. Competition from healthcare providers located in the service area of the Corporation and the Obligated Group, from other types of healthcare providers that may offer comparable healthcare services and from alternative or substitute healthcare delivery systems or programs, may decrease utilization of the Corporation's and the Obligated Group's healthcare facilities. In addition, the development of future medical and other scientific advances may result in decreased usage of inpatient hospital facilities. Efforts by insurers, employer-purchasers of healthcare insurance and governmental agencies to reduce utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety standards, the possibility of future unionization and more extensive utilization of outpatient care at facilities not related to the healthcare facilities of the Corporation and the Obligated Group could adversely affect the operations of the Corporation and the Obligated Group. Also, the growth and development of health maintenance organizations, preferred provider organizations and other managed care programs may result in decreased usage of inpatient Corporation and Obligated Group facilities.

(f) In recent years, numerous hospitals have closed their doors, annual admissions to hospitals have dropped and annual patient days have been reduced. In addition to competition from other facilities, a number of other factors have been reducing hospitalization nationwide and in Tennessee. Physicians' practice patterns indicate a trend to fewer inpatient admissions and shorter length of stay for those who are admitted. Third-party payors such as Medicare, Medicaid and Blue Cross have exerted efforts to contain their costs by reviewing and questioning the need for certain inpatient admissions and the length of hospital stays. Insurers and managed care organizations are attempting to use various cost control methods to attempt to provide employers with adequate but low cost insurance programs for their employees. To minimize the cost of such health insurance programs, insurers and managed care organizations are offering products which include such elements as higher deductibles, pre-admission review, concurrent hospital review, retrospective review and other provisions, which tend to reduce hospital admissions and stays and, accordingly, healthcare revenues. It is impossible to predict at this time the extent to which such trends and actions will affect the Corporation and the Obligated Group and its operations.

(g) Operation of certain healthcare facilities of the Corporation and the Obligated Group necessitates the production of waste products, including certain radioactive wastes, infectious wastes and hazardous wastes as defined in federal and state laws. As the generator of these wastes, the Corporation and the Obligated Group are responsible for compliance with applicable federal, state and local laws and regulations, including the proper handling, labeling, storage, transport and disposal of the wastes, and may incur liability without regard to fault or remedial actions and for personal injury and property damage related to a release or threatened release of these wastes. Such liability could be substantial and may adversely affect the Corporation's and the Obligated Group's financial condition.

(h) Availability of nurses and other qualified healthcare technicians and personnel is an important factor to the Corporation and the Obligated Group. Healthcare facilities nationwide are experiencing a shortage in the number of nurses available and qualified to perform nursing services. The nursing shortage has forced many hospitals to increase nursing salaries and has caused some to cut back operations. Efforts to organize nurses and other nursing and technical personnel into collective bargaining units have resulted at times in adverse labor actions and conditions. The occurrence of any of these events could adversely impact future operations of the Corporation and the Obligated Group.

(i) Unforeseen labor actions could result in a substantial decrease in revenues of the Corporation and the Obligated Group without corresponding decreases in costs.

(j) The occurrence of natural disasters, including hurricanes, floods and earthquakes, may damage the Corporation and the Obligated Group, interrupt utility service thereto, or otherwise impair Corporation and Obligated Group operations and the generation of revenues therefrom. Although the Corporation and the Obligated Group are covered by general property insurance in an amount which management considers to be sufficient to provide for the replacement of such facilities in the event of such a natural disaster, there is no assurance that such insurance would in fact be adequate to do so.

(k) Availability of revenues in the event of bankruptcy of the Corporation, the Obligated Group or related entities. Certain judicial decisions have cast doubt upon the right of a bond trustee, in the event of a hospital's bankruptcy, to collect and retain for the benefit of Bondholders portions of revenues consisting of Medicare, TennCare, Medicaid and other governmental receivables.

(1) Potential depletion of the Medicare Trust Fund, as projected by various studies.

(m) The cost and availability of medical malpractice insurance for medical personnel working or practicing in the hospitals.

(n) Other risk factors may also affect the operation of the Corporation and the Obligated Group, including without limitation the following: (1) the cost and availability of energy; (2) the cost and availability of insurance, such as fire, general comprehensive liability and excess liability, that healthcare facilities of a similar size and type generally carry; (3) uninsured acts of God; (4) imposition of wage and price controls for the healthcare industry; (5) decrease in population in the Corporation's and the Obligated Group's service areas; (6) reduced need for services arising from future medical and scientific advances; (7) preventive medicine; (8) improved occupational health and safety and improved outpatient care which could result in decreased usage of Corporation and Obligated Group facilities; (9) the impact of a pandemic or other need for surge capacity at Corporation and Obligated Group facilities and (10) an increase in the rate of inflation and difficulties in increasing service charges and other fees, while at the same time maintaining the quantity and quality of healthcare services, may affect the ability of the Corporation and the Obligated Group to maintain sufficient operating margins.

Financial Information. Certain financial and operating information in connection with the Obligated Group (which includes the Corporation) is set forth in APPENDICES A and B. There can be no assurance that the financial results achieved by the Obligated Group in the future will be similar to historical results set forth in APPENDICES A and B. Such future results will vary from historical results, and actual variations may be material. Therefore, the historical operating results of the Obligated Group cannot be taken as a representation that the Corporation will be able to generate sufficient revenues in the future to make payment of principal of, premium, if any, and interest on the Bonds, that the Corporation will be able to generate sufficient revenues in the future to make payments on the Series 2011 Obligation and that the Obligated Group will be able to generate sufficient revenues in the future to make payment on the other indebtedness owed under the Master Indenture.

Risks Related to Corporation and Obligated Group Operations. Through various changes in governmental policy, advances in technology and treatment, increased costs of operations, increased charges, changes in payment methodology, utilization review and greater competition, inpatient hospitalizations have generally decreased in recent years. It is uncertain whether that decrease will continue, and to what extent the factors mentioned above will continue to create operational and economic uncertainty for hospitals. It is now generally acknowledged that hospital operations pose greater complexity and higher risk than in years past and this trend is expected to continue. It is not practical to enumerate each and every operating risk which may result from hospital operations, and certain risks or combinations of risks which are now unanticipated may have material adverse results in the future. Certain risks relating to hospital operations are enumerated below.

Equipment. Technological advances in recent years have accelerated the trend toward the use of sophisticated diagnostic and treatment equipment in hospitals. The availability of certain equipment may be a significant factor in hospital utilization, but in the near future purchase of such equipment may be subject to health planning agency approval on the federal or state level and the ability of the Corporation and the Obligated Group to finance such purchases. The cost of acquiring and maintaining such equipment may affect the ability of Corporation and Obligated Group to maintain sufficient operating margins. There is also the risk of material adverse impact from problems in implementing technology, in particular health care information systems.

Competition. The Corporation's and the Obligated Group's costs and revenues could be substantially affected by future changes in the number and mix of both patients and services brought about by increased competition among healthcare providers and insurers. This competition could take several different forms, including:

(a) Competition among hospitals to sell their services more cheaply to third-party payors;

(b) Competition from existing hospitals in the Corporation's and the Obligated Group's service area and from tertiary facilities in surrounding urban centers to offer new services or expand existing services or to reduce charges;

(c) Competition from nursing homes, home health agencies, ambulatory care facilities, surgical centers, rehabilitation and therapy centers, increasingly sophisticated physician group practices, and other non-hospital providers for many services for which patients currently rely on hospitals;

(d) Competition for patients from freestanding specialty hospitals which tend to provide only medical procedures with a high financial return, such as orthopedics, thus siphoning off potential revenue from full-service acute care hospitals;

(e) Competition for patients between physicians, who generally use hospitals, and non-physician practitioners such as nurse-midwives, nurse practitioners, chiropractors, physical and occupational therapists and others, who may not generally use hospitals;

(f) Competition for enrollees between traditional indemnity insurers, whose members generally have a free choice of hospitals and other providers, and health maintenance organizations or other prepaid plans, who either own their own hospitals or contract with hospitals and other providers and thus substantially restrict the providers from whom their members can receive healthcare services; and

(g) Competition from proprietary providers of healthcare, which proprietary providers may have access to equity capital markets to obtain funds with which to compete under financing instruments which generally do not restrict the operational flexibility of such providers to the degree that the tax-exempt capital market restricts the operations of the Corporation and the Obligated Group.

Medical Staff. A significant portion of the Corporation's and the Obligated Group's revenue is derived from charges to patients, or reimbursement from third-party intermediaries on behalf of patients, for treatment delivered to patients admitted to the Corporation's and the Obligated Group's healthcare facilities by members of its medical staff. There is no assurance that the medical staff will continue to do so, or, if they continue to do so, to do so in the same manner and numbers as before. Each physician on the medical staff has the option of admitting a particular patient, with the patient's consent, to one or another acute care hospital with which the physician is or may become affiliated.

Environmental Laws and Regulations. Healthcare providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations which address, among other things, provider operations or facilities and properties owned or operated by providers. The types of regulatory requirements faced by healthcare providers include, but are not limited to, air and water quality control requirements, waste management requirements, specific regulatory requirements applicable to asbestos, polychlorinated biphenyls, radioactive substances and other hazardous substances, requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the Corporation's and the Obligated Group's facilities and requirements for training employees in the proper handling and management of hazardous materials and wastes.

In their role as owners and/or operators of properties or facilities, healthcare providers may be subject to liability for investigating and remedying any hazardous substances which have come to be located on the property, including any such substances that may have migrated off the property. Typical healthcare provider operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, incineration, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, healthcare provider operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property or the environment, may interrupt operations and/or increase their cost, result in legal liability, damages, injunctions or fines, and result in investigations, administrative proceedings, penalties or other governmental agency actions.

At the present time, management of the Corporation and the Obligated Group is not aware of any pending or threatened claim, investigation or enforcement action regarding environmental issues which, if determined adversely to the Corporation and the Obligated Group, would have material adverse consequences to the operations or financial condition of the Corporation and the Obligated Group. There can be no assurance given, however, that the Corporation and the Obligated Group will not encounter environmental risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Corporation and the Obligated Group.

Malpractice Insurance. The Corporation has malpractice and other insurance providing coverage in amounts that it has determined to be adequate to protect its property and operations. Malpractice and other claims, however, could adversely affect the financial position of the Corporation and the Obligated Group, as could substantial increases in the cost of malpractice insurance. There are currently no claims against the Hospital that exceed its insurance coverage limits.

Certain Bankruptcy Risks

In the event of bankruptcy of an Obligated Group Member, the rights and remedies of the Holders of the Bonds are subject to various provisions of the United States Bankruptcy Code. If an Obligated Group Member were to commence a proceeding in bankruptcy, payments made by that Obligated Group Member during the 90-day (or, in some circumstances, one-year) period immediately preceding the commencement may be avoided as preferential transfers to the extent payments allow the recipients thereof to receive more than they would have received in the event of the Obligated Group Member's liquidation and the other requirements set forth in Section 547(b) of the United States Bankruptcy Code have been met. Security interests and other liens granted to or perfected by a Trustee or the Master Trustee during the preference period may also be avoided as preferential transfers to the extent the security interest or other lien secures obligations that arose prior to the date of the grant or perfection. Such a bankruptcy filing would result in the imposition of an automatic stay of the commencement or continuation of any judicial or other proceeding against the Obligated Group Member and its property, and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of a Trustee and the Subordinate Master Trustee. If the bankruptcy court so ordered, the property of the Obligated Group Member could be used for the reorganization of the Obligated Group Member despite any security interest of the Trustee therein. The rights of the Trustee and the Master Trustee to enforce their respective interests and other liens could be delayed or altered during the pendency of the reorganization.

Such Obligated Group Member could file a plan for the adjustment of its debts in any bankruptcy proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by a court, would bind all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan be feasible and that it shall either have been accepted by each class of claims impaired thereunder or, if the plan is not so accepted, the court shall have determined that the plan is fair and equitable with respect to each class of nonaccepting creditors impaired thereunder and does not discriminate unfairly. A class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor.

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

In the event of bankruptcy or insolvency of an Obligated Group Member, there is no assurance that certain covenants, including tax covenants, contained in the Indenture, the Loan Agreement or the Master Indenture and certain other documents would survive. Accordingly, a debtor or bankruptcy trustee could take action that would adversely affect the exclusion of interest on the Bonds from gross income of the Bondholders for federal income tax purposes.

Patient Service Revenues

Net patient revenues realized by the Obligated Group are derived from a variety of sources and will vary among the individual facilities owned and operated by the Obligated Group Members and also among the various market areas and regions in which the facilities are located. Certain facilities and regions may realize substantially more revenues from private payment programs, such as managed care organizations, than do others.

A substantial portion of the net patient service revenues of the Obligated Group is derived from third-party payors which pay for the services provided to patients covered by third parties for services. These third-party payors include the federal Medicare program, state Medicaid programs (including TennCare) and private health plans and insurers, including health maintenance organizations and preferred provider organizations. Many of those programs make payments to Members of the Obligated Group in amounts that may not reflect the direct and indirect costs of the Members of providing services to patients.

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

Medicare, Medicaid and TennCare Programs

Medicare and Medicaid are the commonly used names for reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program, and Medicaid is a combined federal and state program. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, blind, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient hospital services, skilled nursing care and some home health care, and Medicare Part B covers physician services and some supplies. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and administered by the various states. As further discussed under the caption "Medicaid - Tennessee Medicaid Alternative" below, Tennessee implemented a program named TennCare as a Medicaid alternative in 1994. TennCare is a demonstration program under a Section 1115 waiver granted by the Centers for Medicare and Medicaid Services, ("CMS"). For the six months ended December 31, 2010, approximately 31% of the net patient service revenue of the Obligated Group was derived from the Medicare program and approximately 10% of the Obligated Group's net patient service revenue was derived from the combined Medicaid and TennCare programs.

Medicare

Medicare is a federal governmental health insurance system under which physicians, hospitals and other health care providers are reimbursed or paid directly for services provided to eligible elderly and disabled persons and persons with end-stage renal disease. Medicare is administered by CMS. In order to achieve and maintain Medicare certification, a health care provider must meet CMS's "Conditions of Participation" on an ongoing basis, as determined by the state in which the provider is located and/or The Joint Commission ("The Joint Commission") or the Healthcare Facilities Accreditation Program. The federal government frequently revises the laws, regulations and policies governing Medicare eligibility, coverage, payment and participation under the Medicare program. At this time, it is not known whether future changes to such laws, regulations or policies will have a material adverse financial effect on the Obligated Group.

The Obligated Group depends significantly on Medicare as a source of revenue. Because of this dependence, changes in the Medicare program may have a material effect on the Obligated Group. Future reductions in Medicare reimbursement, or increases in Medicare reimbursement in amounts less than increases in the costs of providing care, may have a material adverse financial effect on the Obligated Group.

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

PPS-exempt hospitals and units (inpatient psychiatric, rehabilitation and long-term hospital services) are currently reimbursed for their reasonable costs, subject to a cost per discharge target. These limits are updated annually by an index generally based upon inflationary increases in costs of providing health care services.

From time to time, the factors used in calculating the prospective payments for units of service are modified by CMS, which may reduce revenues for particular services. Additionally, as part of the federal budgetary process, Congress has regularly amended the Medicare law to reduce increases in payments that are otherwise scheduled to occur, or to provide for reductions in payments for particular services. These actions could adversely affect the revenues of the Obligated Group.

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

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

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

Medicare Audits. Hospitals participating in Medicare are subject to audits and retroactive audit adjustments with respect to reimbursements claimed under the Medicare program. The Members of the Obligated Group receive payments for various services provided to Medicare patients based upon charges or other reimbursement methodologies that are then reconciled annually based upon the preparation and submission of annual cost reports. Estimates for the annual cost reports are reflected as amounts due to/from third-party payors and represent several years of open cost reports due to time delays in the fiscal intermediaries' audits and the basic complexity of billing and reimbursement regulations. These estimates are adjusted periodically based upon correspondence received from the fiscal intermediary. Medicare regulations also provide for withholding Medicare payment in certain circumstances if it is determined that an overpayment of Medicare funds has been made. In addition, under certain circumstances, payments 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 Members of the Obligated Group to civil or criminal sanctions. Management of the Corporation is not aware of any situation whereby a material Medicare payment is being withheld from the Members of the Obligated Group.

CMS enlists Recovery Audit Contractors ("RACs") to further assure accurate payments to providers. RACs search for potentially improper Medicare payments from prior years that may not have been detected through CMS's existing program integrity efforts. RACs are private contractors, paid on a contingency fee basis and use their own software and review processes to determine areas for review. Once a RAC identifies a potentially improper claim as a result of an audit, it applies an assessment to the provider's Medicare reimbursement in an amount estimated to equal the overpayment from the provider pending resolution of the audit. Such audits may result in reduced reimbursement for past alleged overpayments and may slow future Medicare payments to providers pending resolution of appeals process with RACs. Under the Health Care Reform Act, recovery audits were expanded to include Medicaid by requiring states to contract with RACs to conduct such audits. It is unknown what, if any, future impact such reviews will have on the revenues of the Obligated Group. See the caption, "Health Care Reform," above for changes to the Medicare program in the Health Care Reform Act.

Medicaid

Tennessee Medicaid Alternative. Effective January 1, 1994, Tennessee implemented a healthcare program as an alternative to traditional Medicaid called TennCare. The principal elements of TennCare that distinguish it from Medicaid include: eligibility standards, the nature and content of the standard benefit package, the organization of health services delivery, the methodology of payment and requirement for global budgeting, and preventive care features.

Medicare waiver programs such as TennCare are time-limited, and TennCare's current waiver is set to expire on June 30, 2013 unless it is renewed.

The current TennCare program consists of two programs: (1) TennCare Medicaid, which is for persons who are Medicaid eligible, and (2) TennCare Standard, which is for persons who are not Medicaid eligible but who have been determined to meet the state's criteria as being either uninsured or uninsurable. Historically, individuals in both programs have received the same services. TennCare Standard enrollees with family incomes at or above poverty are required to pay premiums and copays.

TennCare services are offered through several managed care entities. Each enrollee has a Managed Care Organization (MCO) for his primary care and medical/surgical services, a Behavioral Health Organization (BHO) for his mental health and substance abuse treatment services, and a Pharmacy Benefits Manager (PBM) for his pharmacy services. Children under the age of 21 are eligible for dental services, which are provided by a Dental Benefits Manager (DBM). Enrollees are allowed to choose the MCO they wish from among those available in the areas in which they live.

MCOs have traditionally been compensated based on a per member, per month capitation fee for each enrollee, regardless of how many services the enrollee used. However beginning in July 2002, TennCare began utilizing an Administrative Services Only ("ASO") compensation structure. The ASO structure requires MCOs to submit invoices to TennCare for payment of medical services delivered in order to receive a fixed administrative fee.

Because TennCare includes quality monitoring as well as efficiency monitoring, together with limitations on payments, it is expected to cause downward pressure on the economics of healthcare delivery. In addition, TennCare limits payments for educational services, such as those offered by medical schools. Furthermore, funding for hospitals in urban areas which deliver higher levels of acute care may not be adequate to meet the needs of such hospitals. It cannot be predicted whether the funding sources for TennCare will be adequate to meet the funding needs of the program; therefore, if TennCare utilization increases, the financial performance of the providers will be adversely affected. In fiscal year 2010 the Obligated Group received approximately 6% of its gross patient revenues from the treatment of TennCare inpatients and outpatients.

The management of the Obligated Group estimates that the System is paid approximately 60-70 cents on each dollar spent to care for TennCare and Medicaid patients. Treatment of TennCare and Medicaid patients accounted for 13% of the Obligated Group's gross patient service revenues for the fiscal year ended June 30, 2010.

Payments for services provided by the Corporation and the Obligated Group to TennCare beneficiaries are the sole responsibility of the managed care organizations contracting for such services. No assurance can be given that the managed care organizations will be financially able to pay all amounts owed the Corporation or that such amounts will be timely paid.

State Children's Health Insurance Program

The State Children's Health Insurance Program ("SCHIP") is a federally funded insurance program for families which are financially ineligible for Medicaid, but cannot afford commercial health insurance. The CMS administers SCHIP, but each state creates its own program based upon minimum federal guidelines. SCHIP insurance is provided through private health plans contracting with the state.

Each state must periodically submit its SCHIP plan to CMS for review to determine if it meets the federal requirements. If it does not meet the federal requirements, a state can lose its federal funding for the program.

Private Health Plans and Managed Care

Managed care plans generally use discounts and other economic incentives to reduce or limit the cost and utilization of health care services. Payments to the Obligated Group from managed care plans typically are lower than those received from traditional indemnity/commercial insurers. Defined broadly, for the six months ended December 31, 2010, managed care payments constituted approximately 35% of the net patient service revenues of the Obligated Group. There is no assurance that the members of the Obligated Group will maintain managed care contracts or obtain other similar contracts in the future. Failure to maintain contracts could have the effect of reducing the market share of a member of the Obligated Group and the Obligated Group's net patient services revenues. Conversely, participation may maintain or increase the patient base but could result in lower net income or operating losses to the Obligated Group if the members are unable to adequately contain their costs.

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

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

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

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

Dependence Upon Third-Party Payors

The Obligated Group Members' ability to develop and expand their services and, therefore, profitability, is dependent upon their ability to enter into contracts with third-party payors at competitive rates. There can be no assurance that they will be able to attract third-party payors, and where they do, no assurance can be given that they will be able to contract with such payors on advantageous terms. The inability of the Obligated Group Members to contract with a sufficient number of such payors on advantageous terms could have a material adverse effect on the Obligated Group Members' future operations and financial results.

Alternative or Integrated Delivery System Development

Many hospitals and health systems are pursuing strategies with physicians in order to offer an integrated package of health care services, including physician and hospital services, to patients, health care insurers and managed care providers. The Health Care Reform Act encourages the development of health care delivery models that are designed to enhance quality and reduce cost and that will effectively require greater integration between and collaboration among hospitals and physicians by allowing accountable care organizations ("ACOs") that meet quality thresholds to share in the savings achieved for the Medicare Program. The Health Care Reform Act requires the Secretary of HHS to implement a shared savings program through ACOs requiring integration between hospitals and physicians, that will deliver health care services to Medicare beneficiaries, and to implementation a demonstration project to develop ACOs for pediatric patients under the Medicaid program.

In addition to ACOs, these integration strategies may take many forms, including management service organizations, or MSOs, which may provide physicians or physician groups with a combination of financial and managed care contracting services, office and equipment, office personnel and management information systems. Integration objectives may also be achieved via physician-hospital organizations, or PHOs, organizations which are typically jointly owned or controlled by a hospital and physician group for the purpose of managed care contracting, implementation and monitoring. Other integration structures include hospital-based clinics or medical practice foundations, which may purchase and operate physician practices as well as provide all administrative services to physicians. Many of these integration strategies are capital intensive and may create certain business and legal liabilities for the related hospital or health system.

Often the start-up capitalization for such developments, as well as operational deficits, are funded by the sponsoring hospital or health system. Depending on the size and organizational characteristics of a particular development, these capital requirements may be substantial. In some cases, the sponsoring hospital or health system may be asked to provide a financial guarantee for the debt of a related entity which is carrying out an integrated delivery strategy. In certain of these structures, the sponsoring hospital or health system may have an ongoing financial commitment to support operating deficits, which may be substantial on an annual or aggregate basis.

These types of integrated delivery developments are generally designed to conform to existing trends in the delivery of medicine, to implement anticipated aspects of health care reform, to increase physician availability to the community and/or enhance the managed care capability of the affiliated hospital and physicians. However, these goals may not be achieved, and, if the development is not functionally successful, it may produce materially adverse results that are counterproductive to some or all of the above-stated goals.

All such integrated delivery developments carry with them the potential for legal or regulatory risks in varying degrees. Such developments may call into question compliance with the Medicare fraud and abuse laws, relevant antitrust laws and federal or state tax exemption. Such risks will turn on the facts specific to the implementation, operation or future modification of any integrated delivery system. MSOs which operate at a deficit over an extended period of time may raise significant risks of investigation or challenge regarding the tax-status of health care providers participating in MSOs or compliance with the Medicare fraud and abuse laws. In addition, depending on the type of development, a wide range of governmental billing and other issues may arise, including questions of the authorization of the entity to bill for or on behalf of the physicians involved. Other related legal and regulatory risks may arise, including employment, pension and benefits, and corporate practice of medicine, particularly in the current atmosphere of frequent and often unpredictable changes in federal and state legal requirements regarding health care and medical practice. The potential impact of any such regulatory or legal risks on the Obligated Group Members cannot be predicted with certainty. There can be no assurance that such issues and risks will not lead to material adverse consequences in the future.

Regulatory Environment

Licensing, Surveys, Investigations and Audits

Health facilities, including those of the Obligated Group, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare Conditions of Participation, requirements for participation in Medicaid, state licensing agencies, private payors and the accreditation standards of The Joint Commission. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require affirmative actions by a member of the Obligated Group.

The Corporation's management currently anticipates no difficulty renewing or continuing currently held licenses, certifications or accreditations, nor does management anticipate a reduction in third-party payments from events that would materially adversely affect the operations or financial condition of the Obligated Group. Nevertheless, actions in any of these areas could result in the loss of utilization or revenues, or the ability of a member of the Obligated Group to operate all or a portion of its health care facilities, and consequently, could have a material and adverse effect on the Obligated Group.

Certificates of Need

The State of Tennessee also administers a similar health planning program which includes certificate of need ("CON") requirements. The CON program requires that capital expenditures above certain limits or the introduction of new health services by or on behalf of a hospital first be approved by the Tennessee Health Facilities Commission before the expenditures are incurred or the new services are initiated. If a hospital desires to undertake a project involving capital expenditures above the limits or to add new health services, there can be no assurance that the expenditure will be granted CON approval. Amendments to or the repeal of the existing CON program could result in the entry of additional providers of healthcare services in the Corporation's and the Obligated Group's service area, thereby increasing competition and thus possibly reducing the demand for the Corporation's and the Obligated Group's services.

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

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

Civil and Criminal Fraud and Abuse Laws and Enforcement

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

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

Laws governing fraud and abuse apply to all individuals and healthcare enterprises with which a hospital does business, including other hospitals, home health agencies, long term care entities, infusion providers, pharmaceutical providers, insurers, health maintenance organizations, preferred provider organizations, third party administrators, physicians, physician groups, and physician practice management companies. Fraud and abuse prosecutions can have a catastrophic effect on a provider and potentially a material adverse impact on the financial condition of other entities in the healthcare delivery system of which that entity is a part.

Based upon the prohibited activity in which the provider has engaged, governmental agencies and officials may bring actions against providers under civil or criminal False Claims Acts, statutes prohibiting referrals for compensation (including the federal "Anti-Kickback Law") or fee-splitting, or the "Stark law," which prohibits certain referrals by a physician to certain organizations in which the physician has a financial relationship, unless an exception applies. Many States also have self-referral prohibitions. The civil and criminal monetary assessments and penalties arising out of such investigations and prosecutions may be substantial. Additionally, the provider may be denied participation in the Medicare, TennCare and/or Medicaid programs. If and to the extent any member of the Obligated Group engaged in a prohibited activity and judicial or administrative proceedings concluded adversely to the member, the outcome could materially affect the Obligated Group.

On August 20, 2010, the Corporation filed a Report of Internal Investigation and Self-Assessment (the "Self Report") with the United States Attorney's Office in Southwest Virginia. This report was based upon the Corporation's discovery of certain issues involving office space at a Wellmont-owned medical office building at the Corporation's Lonesome Pine Hospital in Big Stone Gap, Virginia. The Corporation made certain office space in the medical office building available to certain members of the Lonesome Pine medical staff. Due to changes in personnel and miscommunications within the Corporation's internal office and administrative functions at Lonesome Pine Hospital, the billing procedures for such lease arrangements lapsed and certain physician groups were not billed for the applicable rent. The Corporation's investigation concluded that these circumstances were not intentional and were the result of oversights and lapses in internal communication.

Under applicable procedure, the United States Attorney's Office in Southwest Virginia advised the Office of Inspector General (the "OIG") of the Corporation's Self-Report. On October 21, 2010, the Corporation was advised that the OIG had accepted the Corporation's Self-Report into the OIG's Self-Report protocol. Subsequently, the Corporation and the OIG negotiated a complete resolution of the Self-Report. The resolution calls for the Corporation to make a settlement payment of approximately $250,000. The Corporation is awaiting the OIG's preparation of the necessary settlement documents for the Corporation's review and signature, at which time the required settlement payment will be made.

Tennessee has several anti-kickback and fee-splitting provisions, some of which apply on an all-payor basis (i.e., not just to governmental payors). Like the federal Anti-Kickback Statute, the Tennessee anti-kickback and fee-splitting provisions generally prohibit inducements or improper remuneration for the referral of patients. These Tennessee laws are broadly worded and generally have not been the subject of interpretation by Tennessee courts or by the Tennessee Attorney General. Therefore, it is difficult to predict the possibility or outcome of adverse enforcement action under these Tennessee laws.

Tennessee also has an all-payor physician self-referral law that prohibits physicians from referring patients to a healthcare entity in which the physician has an investment interest, unless an exception is met. Because the Tennessee physician self-referral law has been subject to limited judicial interpretation, it is difficult to predict the possibility or outcome of adverse enforcement action under this law.

The Health Care Reform Act authorizes the Secretary of HHS to exclude a provider's participation in Medicare, Medicaid and SCHIP as well as suspend payments to a provider pending an investigation of a credible allegation of fraud against the provider.

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

False Claims Act

The False Claims Act, or FCA makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government and may include claims that are simply erroneous. FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the FCA most often results in settlements that require multi-million dollar payments and compliance agreements. The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called "qui tam" actions. Qui tam plaintiffs, or "whistleblowers," share in the damages recovered by the government or recovered independently if the government does not participate. The FCA has become one of the government's primary weapons against health care fraud. FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital. A number of States, including Tennessee, have false claims laws in place that are comparable to the FCA.

Review of Outlier Payments

CMS is reviewing health care providers that are receiving large proportions of their Medicare revenues from outlier payments. Health care providers found to have obtained inappropriately high outlier payments will be subject to further investigation by the CMS Program Integrity Unit and potentially the Office of Inspector General. Management of the Corporation does not believe that any potential review of the Obligated Group Members would materially adversely affect the Obligated Group's results of operations.

Patient Records and Patient Confidentiality

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

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from $50,000 to $250,000 and/or imprisonment if the information was obtained or used with the intent to sell, transfer or use the information for commercial advantage, personal gain or malicious harm.

The HITECH Act

Provisions in the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), enacted as part of H.R. 1, increase the maximum civil monetary penalties for violations of HIPAA and grant enforcement authority of HIPAA to state attorneys general. The HITECH Act also (i) extends the reach of HIPAA beyond "covered entities," (ii) imposes a breach notification requirement on HIPAA covered entities, (iii) limits certain uses and disclosures of individually identifiable information and (iv) restricts covered entities' marketing communications.

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

Security Breaches and Unauthorized Releases of Personal Information

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

Patient Transfers

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

The Corporation's management is not aware of any pending or threatened claim, investigation, or enforcement action regarding patient transfers that, if determined adversely to a Member of the Obligated Group, would have material adverse consequences to the Obligated Group.

Certain Business Transactions

Physician Relations

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

Physician Contracting

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

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

Affiliations, Merger, Acquisition and Divestiture

The Obligated Group Members evaluate and pursue potential acquisition, merger and affiliation candidates as part of the overall strategic planning and development process. As part of its ongoing planning and property management functions, the Obligated Group reviews the use, compatibility and business viability of many of the operations of the members, and from time to time the members may pursue changes in the use of, or disposition of, their facilities. Likewise, members of the Obligated Group occasionally receive offers from, or conduct discussions with, third parties about the potential acquisition of operations and properties which may become subsidiaries or Affiliates of members of the Obligated Group in the future, or about the potential sale of some of the operations or property which are currently conducted or owned by the members. Discussion with respect to affiliation, merger, acquisition, disposition or change of use of facilities, including those which may affect the members, are held from time to time with other parties. These may be conducted with acute care hospital facilities and may be related to potential affiliation with a member of the Obligated Group. As a result, it is possible that the current organization and assets of the members may change from time to time.

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

Antitrust

Enforcement of antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third party contracting, physician relations, and joint venture, merger, affiliation and acquisition activities. While the application of federal and state antitrust laws to health care is still evolving, enforcement activities by federal and state agencies appear to be increasing. Violators of antitrust laws could be subject to criminal and civil liability by both federal and state agencies, as well as by private litigants.

Tax Matters

Tax Exemption for Not-For-Profit Corporations

Loss of tax-exempt status by an Obligated Group Member could result in loss of tax exemption of the Bonds and of other tax-exempt debt issued for the benefit of the Obligated Group Members, and defaults in covenants regarding the Bonds and other related tax-exempt debt would likely be triggered. Such an event would have material adverse consequences on the financial condition of the Obligated Group. Management of the Corporation is not aware of any transactions or activities currently ongoing that are likely to result in the revocation of the tax-exempt status of any Obligated Group Member.

The maintenance by each Obligated Group Member (other than Wellmont, Inc.) of its status as an organization described in Section 501(c)(3) of the Code is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions that may cause their assets to inure to the benefit of private individuals. The Internal Revenue Service has announced that it intends to closely scrutinize transactions between not-for-profit corporations and for-profit entities, and in particular has issued audit guidelines for tax-exempt hospitals. 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 Internal Revenue Service in the form of Private Letter Rulings, many activities have not been addressed in any official opinion, interpretation or policy of the Internal Revenue Service. Because the Obligated Group Members conduct large-scale and diverse operations involving private parties, there can be no assurances that certain of their transactions would not be challenged by the Internal Revenue Service.

The Internal Revenue Service has taken the position that hospitals which are in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status. See the information herein under the caption, "RISK FACTORS - Regulatory Environment - Civil and Criminal Fraud and Abuse Laws and Enforcement." As a result, tax-exempt hospitals, such as those of the Obligated Group Members, which have, and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny and perhaps enforcement by the Internal Revenue Service.

The Taxpayers Bill of Rights 2, referred to for purposes of this Official Statement as the Intermediate Sanctions Law, allows the Internal Revenue Service to impose "intermediate sanctions" against certain individuals in circumstances involving the violation by tax-exempt organizations of the prohibition against private inurement. Prior to the enactment of the Intermediate Sanctions Law, the only sanction available to the Internal Revenue Service was revocation of an organization's tax-exempt status. Intermediate sanctions may be imposed in situations in which a "disqualified person" (such as an "insider") (i) engages in a transaction with a tax-exempt organization on other than a fair market value basis, (ii) receives unreasonable compensation from a tax-exempt organization or (iii) receives payment in an arrangement that violates the prohibition against private inurement. These transactions are referred to as "excess benefit transactions." A disqualified person who benefits from an excess benefit transaction will be subject to an excise tax equal to 25% of the amount of the excess benefit. Organizational managers who participate in the excess benefit transaction knowing it to be improper are subject to an excise tax equal to 10% of the amount of the excess benefit, subject to a maximum penalty of $20,000. A second penalty, in the amount of 200% of the excess benefit, may be imposed on the disqualified person (but not upon the organizational manager) if the excess benefit is not corrected within a specified period of time.

In certain cases, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax-exempt hospitals in lieu of revoking their tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations are typically imposed on the tax-exempt hospital pursuant to a "closing agreement" with respect to the hospital's alleged violation of Section 501(c)(3) exemption requirements. Given the size of the Obligated Group, the wide range of complex transactions entered into by the Obligated Group Members and uncertainty regarding how tax-exemption requirements may be applied by the IRS, Members are, and will be, at risk for incurring monetary and other liabilities imposed by the IRS through this "closing agreement" or similar process. Like certain of the other business and legal risks described herein which apply to large multi-hospital systems, these liabilities are probable from time to time and could be substantial, in some cases involving millions of dollars, and in extreme cases could be materially adverse.

Bills have been introduced in Congress that would require a tax-exempt hospital to provide a certain amount of charity care and care to Medicare and Medicaid patients in order to maintain its tax-exempt status and avoid the imposition of an excise tax. Other legislation would have conditioned a hospital's tax-exempt status on the delivery of adequate levels of charity care. Congress has not enacted such bills. However, there can be no assurance that similar legislative proposals or judicial actions will not be adopted in the future.

In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt hospitals with respect to their exempt activities and the generation of unrelated business taxable income. The Obligated Group Members participate in activities that may generate unrelated business taxable income. Management of the Corporation believes it and the other Obligated Group Members have properly accounted for and reported unrelated business taxable income; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported unrelated business taxable income and in some cases could ultimately affect the tax-exempt status of a Obligated Group Member as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds and other tax-exempt debt of the Obligated Group Members. In addition, legislation, if any, which may be adopted at the federal, state and local levels with respect to unrelated business income cannot be predicted. Any legislation could have the effect of subjecting a portion of the income of the Obligated Group Members to federal or state income taxes.

Obligated Group Members have been, are being and most likely will be audited regularly by the IRS. Management believes that it has properly complied with the tax laws. Nevertheless, because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an audit could result in additional taxes, interest and penalties. An audit could ultimately affect the tax-exempt status of a Obligated Group Member as well as the exclusion from gross income for federal income tax purposes of the interest payable with respect to the Bonds and other tax-exempt debt of the Obligated Group Members.

In addition to the foregoing proposals with respect to income by not-for-profit corporations, various state and local governmental bodies have challenged the tax-exempt status of not-for-profit institutions and have sought to remove the exemption of property from real estate taxes of part or all of the property of various not-for-profit institutions on the grounds that a portion of its 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 not-for-profit corporations. There can be no assurance that future changes in the laws and regulations of federal, state or local governments will not materially adversely affect the operations and financial condition of the Obligated Group Members by requiring any of them to pay income or local property taxes.

Tax-Exempt Status of the Bonds

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that the issuers file an information report with the IRS. The Corporation has agreed that it will comply with such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of the interest on the Bonds as taxable. Such adverse treatment may be retroactive to the date of issuance.

Bond Examinations

The IRS has added a new Schedule H to IRS Form 990, on which hospitals and health systems will be required to report how they provide community benefit and to specify certain billing and collection practices. The IRS has also added a new Schedule K to IRS Form 990. This new schedule requests detailed information related to all outstanding bond issues of nonprofit corporations, including, for bonds issued after 2002, information regarding operating, management and research contracts as well as private business use compliance. Filers must complete the entire schedule for tax years beginning in 2009.

Although the Corporation believes that its expenditure and investment of bond proceeds, use of property financed with tax-exempt debt and record retention practices comply with all applicable laws and regulations, there can be no assurance that an IRS review triggered by information submitted on a Schedule H or Schedule K would not adversely affect the market value of the Bonds or of other outstanding tax-exempt indebtedness of the Obligated Group. Additionally, the Bonds or other tax-exempt obligations issued for the benefit of the Obligated Group Members, may be, from time to time, subject to examinations by the IRS. The Corporation received a notice from the IRS dated January 26, 2011 to the effect that the Series 2005 Bonds had been selected for a routine examination to determine compliance with federal tax requirements, together with a Form 4564 Information Document Request requesting certain documentation relating to the Series 2005 Bonds. On March 15, 2011, the Corporation responded to such request providing the requested documentation. Such examination is ongoing. The Corporation believes that the Series 2005 Bonds and other tax-exempt obligations issued for the benefit of the Obligated Group Members properly comply with the tax laws. In addition, Bond Counsel rendered an opinion with respect to the tax-exempt status of the Bonds upon their issuance, as described under the caption "TAX STATUS." No ruling with respect to the tax-exempt status of the Bonds, has been or will be sought from the IRS, however, and the opinions of counsel are not binding on the IRS or the courts. There can be no assurance that any IRS examination of the Bonds will not adversely affect the market value of the Bonds. See “TAX STATUS” below.

Other Risks

Indigent Care

Tax-exempt hospitals often treat large numbers of “indigent” patients who, for various reasons, are unable to pay for their medical care. Typically, urban, inner-city hospitals, including hospitals owned by certain Obligated Group Members, may treat significant numbers of indigents. These hospitals may be susceptible to economic and political changes which could increase the number of indigent persons or the responsibility for caring for this population. General economic conditions which affect the number of employed individuals who have health insurance coverage will similarly affect the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal healthcare programs (including Medicare and Medicaid) may increase the frequency and severity of indigent treatment in such hospitals. It is also possible that future legislation could require that tax-exempt hospitals maintain minimum levels of indigent care as a condition to federal income tax exemption or local property tax exemption. In sum, indigent care commitments of the Obligated Group Members could constitute a material and adverse financial risk in the future.

Cost of Capital

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

Interest Rate Swaps

The Corporation has entered into certain interest rate swap transactions with respect to its outstanding bonds. Under certain circumstances, the interest rate swap may be terminated prior to the maturity of the related outstanding bonds. If the interest rate swap is terminated under certain market conditions, the Corporation may owe a termination payment to the applicable swap counterparty. Such a termination payment generally would be based upon the market value of the related interest rate swap on the date of termination and could be substantial. In addition, a partial termination of an interest rate swap could occur to the extent that any outstanding bonds hedged with an interest rate swap is redeemed pursuant to an optional redemption. If such an optional redemption occurs, a termination payment related to the portion of the interest rate swap to be terminated will be owed by either the Corporation or the applicable swap counterparty, depending on market conditions. In the event of an early termination of an interest rate swap, there can be no assurance that (i) the Corporation will receive any termination payment payable to it by the applicable swap counterparty, (ii) the Corporation will have sufficient amounts to pay a termination payment payable by it to the applicable swap counterparty and (iii) the Corporation will be able to obtain a replacement swap agreement with comparable terms. The Corporation has credit risk to the extent the applicable swap counterparty’s credit or ability to perform is reduced.

Bond Ratings

There is no assurance that the ratings assigned to the 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 Bonds. See the information herein under the caption “RATINGS.”

Investments

Corporation has significant holdings in a broad range of investments. Market fluctuations have affected and may continue to affect the value of those investments. Those fluctuations may be at times material.

Staffing Shortages

From time to time, the healthcare industry has suffered from a scarcity of nursing and other qualified health care technicians and personnel. Staffing shortages could force the Obligated Group Members to pay higher salaries to nursing and other qualified health care technicians and personnel as competition for such employees intensifies and, in an extreme situation, could lead to difficulty in keeping the facilities licensed to provide nursing care and thus eligible for reimbursement under Medicare, TennCare and Medicaid.

Professional Liability Claims and Liability Insurance

In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased nationwide, resulting in substantial increases in malpractice insurance premiums. Professional liability and other actions alleging wrongful conduct and seeking punitive damages often are filed against health care providers. Litigation may also arise from the corporate and business activities of the Corporation and its affiliates, employee-related matters, medical staff and provider network matters and denials of medical staff and provider network membership and privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims, business disputes and workers' compensation claims are not covered by insurance or other sources and, in whole or in part, may be a liability of the Corporation and its affiliates if determined or settled adversely. Claims for punitive damages may not be covered by insurance under certain state laws. Although the Members of the Obligated Group currently maintain actuarially determined self-insurance reserves and carry excess malpractice and general liability insurance which management of the Corporation considers adequate, management of the Corporation is unable to predict the availability, cost or adequacy of such insurance in the future.

Other Risk Factors Generally Affecting Health Care Facilities

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Obligated Group Members or the market value of the Bonds, to an extent that cannot be determined at this time:

a. Hospitals 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 Obligated Group Members bear a wide variety of risks in connection with their 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 Obligated Group Members are subject to all of the risks listed above, and such risks, alone or in combination, could have material adverse consequences to the financial condition or operations of the Obligated Group.

b. Competition from other hospitals and other competitive facilities now or hereafter located in the respective service areas of the facilities operated by the Corporation and the Obligated Group Members may adversely affect revenues of the Obligated Group. 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 Obligated Group Members.

c. Cost and availability of any insurance, including self-insurance, such as malpractice, fire, automobile, and general comprehensive liability, that hospitals and other health care facilities of similar size and type as the Obligated Group Members generally carry may adversely affect revenues. The costs of such insurance have increased significantly in the past few years, and such increases are likely to continue in the near future.

d. The occurrences of natural disasters may damage some or all of the facilities, interrupt utility service to some or all of the facilities or otherwise impair the operation of some or all of the facilities operated by the Obligated Group Members or the generation of revenues from some or all of the facilities.

e. 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 Obligated Group Members to offer the equipment or services may be subject to the availability of equipment or specialists, governmental approval or the ability to finance these acquisitions or operations.

f. Reduced demand for the services of the Obligated Group Members that might result from decreases in population in their respective service areas.

g. Increased unemployment or other adverse economic conditions in the service areas of the Obligated Group Members which would increase the proportion of patients who are unable to pay fully for the cost of their care.

h. Any increase in the quantity of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of the Obligated Group Members.

i. Regulatory actions which might limit the ability of the Obligated Group Members to undertake capital improvements to their respective facilities or to develop new institutional health services.

j. The occurrence of a large scale terrorist attack that increases the proportion of patients who are unable to pay fully for the cost of their care and that disrupts the operation of certain health care facilities by resulting in an abnormally high demand for health care services.

k. Instability in the stock market or other investment markets which may adversely affect both the principal value of, and income from, the Corporation's investment portfolio.

CONTINUING DISCLOSURE

The Corporation and the other Obligated Group members (collectively, the "Obligors") will enter into a continuing disclosure agreement (the "Continuing Disclosure Agreement") pursuant to the requirements of Rule 15c2-12 ("Rule 15c2-12") adopted by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended. The Continuing Disclosure Agreement will be entered into by the Obligors for the benefit of the beneficial owners of the Bonds and will obligate the Obligors to provide certain information annually and quarterly and to file notice of the occurrence of certain events. A summary of the Continuing Disclosure Agreement is included in APPENDIX E.

The Corporation serves as the parent organization for affiliated entities, including the members of the Obligated Group. The audited financial statements of the Corporation included in APPENDIX B are consolidated statements that provide financial information with respect to the Corporation and its affiliates described in the audit report, including the other Obligors. The Obligors do not have audited financial statements prepared for the Obligors alone. The Obligors intend to comply with their obligations under the Continuing Disclosure Agreement by continuing to provide audited annual financial statements substantially in the form presented in APPENDIX B.

The Obligors have represented that they are in compliance with all agreements previously entered into by them pursuant to Rule 15c2-12. A failure by the Obligors to comply with the Continuing Disclosure Agreement will not constitute an event of default under the Loan Agreement. Beneficial owners of the Bonds are limited to the remedies described in the Continuing Disclosure Agreement. A failure by the Issuer to comply with the Continuing

Disclosure Agreement must be reported in accordance with Rule 15c2-12 and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

TAX STATUS

Opinion of Bond Counsel—Federal Income Tax Status of Interest

The opinion of McGuireWoods LLP, Richmond, Virginia, Bond Counsel, will state that, under current law, interest on the Bonds is excludable from gross income for purposes of federal income taxation and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. For purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes under Section 56 of the Internal Revenue Code of 1986, as amended (the "Code")), interest on the Bonds must be included in computing adjusted current earnings. See "APPENDIX D – FORM OF APPROVING OPINION OF BOND COUNSEL".

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Bonds.

Bond Counsel's opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents Bond Counsel's judgment as to the proper treatment of interest on the Bonds for federal income tax purposes. Bond Counsel's opinion does not contain or provide any opinion or assurance regarding the future activities of the Issuer or the Obligated Group or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service (the "IRS"). The Issuer and the Corporation have covenanted, however, to comply with the requirements of the Code.

Reliance and Assumptions; Effect of Certain Changes

In delivering its opinion regarding the Bonds, Bond Counsel is relying upon (i) certifications of representatives of the Issuer and the Corporation and other parties as to facts material to the opinion, which Bond Counsel has not independently verified and (ii) the opinion of Hunter, Smith & Davis, LLP, Counsel for the Corporation, to be delivered in connection with the issuance of the Bonds, that the Corporation is an organization described in Section 501(c)(3) of the Code.

In addition, Bond Counsel is assuming continuing compliance with the Covenants (as hereinafter defined) by the Issuer and the Corporation. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, the requirement that the Corporation maintain its status as an organization described in Section 501(c)(3) of the Code, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed or refinanced by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the Treasury of the United States (the "Treasury"). The Indenture, the Loan Agreement and the Tax Compliance Agreement contain covenants (the "Covenants") under which the Issuer and the Corporation have agreed to comply with such requirements. Failure by the Issuer or the Corporation to comply with their respective Covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes. Compliance by the Issuer with its respective Covenants does not require the Issuer to make any financial contribution for which it does not receive funds from the Issuer and the Corporation.

Certain requirements and procedures contained, incorporated or referred to in the Indenture, the Loan Agreement and the Tax Compliance Agreement, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth therein. Bond Counsel expresses no opinion concerning any effect on the excludability of interest on the Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than Bond Counsel.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of the Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning or disposing of the Bonds.

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, certain insurance companies, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the "branch profits tax," individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit.

In addition, prospective purchasers should be aware that the interest paid on, and the proceeds of the sale of, tax-exempt obligations, including the Bonds, are in many cases required to be reported to the IRS in a manner similar to interest paid on taxable obligations. Additionally, backup withholding may apply to any such payments made after March 31, 2007 to any owner of a Bond who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any owner of a Bond who is notified by the IRS of a failure to report all interest and dividends required to be shown on federal income tax returns. The reporting and withholding requirements do not in and of themselves affect the excludability of interest on the Bonds from gross income for federal tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Possible Legislative or Regulatory Action

Legislation and regulations affecting tax-exempt bonds are continually being considered by the United States Congress, the Treasury and the IRS. In addition, the IRS has established an expanded audit and enforcement program for tax-exempt bonds. There can be no assurance that legislation enacted or proposed after the date of issue of the Bonds or an audit initiated or other enforcement or regulatory action taken by the Treasury or the IRS involving either the Bonds or other tax-exempt obligations will not have an adverse effect on the tax status or the market price of the Bonds or on the economic value of the tax-exempt status of the interest thereon.

Opinion of Bond Counsel — Tennessee Income Tax Consequences

In the opinion of Bond Counsel, under existing law, the Bonds and the interest thereon are exempt from all State of Tennessee state, county and municipal taxation except for inheritance, transfer and estate taxes and except to the extent that the Bonds and the interest thereon are included within the measure of certain privilege and excise taxes imposed under Tennessee law.

Bond Counsel will express no opinion regarding (i) other Tennessee tax consequences arising with respect to the Bonds or (ii) any consequences arising with respect to the Bonds under the tax laws of any state or local jurisdiction other than Tennessee. Prospective purchasers of the Bonds should consult their own tax advisors regarding state and local tax issues not covered by Bond Counsel's opinion, including the tax status of interest on the Bonds in a particular state or local jurisdiction other than Tennessee.

LEGAL COUNSEL

McGuireWoods LLP, Richmond, Virginia has served as bond counsel to the Corporation with respect to the issuance of the Bonds. Bond counsel will render an opinion with respect to the Bonds in substantially the form attached as APPENDIX D. The opinion of bond counsel should be read in its entirety for a complete understanding of the scope of the opinion and the conclusions expressed. Delivery of the Bonds is contingent upon the delivery of the opinion of bond counsel.

In connection with the issuance of the Bonds, Penn, Stuart & Eskridge, A Professional Corporation, Bristol, Tennessee, has served as counsel to the Issuer, Hunter, Smith & Davis, LLP, Kingsport, Tennessee, has served as counsel to the Corporation and the Obligated Group, and Presley Burton & Collier, LLC, Birmingham, Alabama, has served as counsel to the Underwriter.

INDEPENDENT AUDITORS

The consolidated financial statements of the Corporation as of June 30, 2010 and June 30, 2009 and for the years then ended, included in APPENDIX B to this Official Statement, have been audited by KPMG LLP, independent auditors, as stated in their report included in APPENDIX B.

LITIGATION

To the best of the Issuer's knowledge, there is no litigation pending or threatened (i) restraining or enjoining the issuance or delivery of the Bonds, (ii) contesting or affecting the validity of the Bonds or the proceedings or authority under which they are to be issued, (iii) contesting the creation, organization or existence of the Issuer or the title of any of its present officials to their respective offices, or (iv) contesting the right of the Issuer to enter into the Financing Documents to which it is a party or to secure the Bonds in accordance with the Indenture.

To the best of the Corporation's knowledge, there is no litigation pending or threatened regarding the matters described in the preceding paragraph. For a description of litigation pending against the Corporation and the Obligated Group, see APPENDIX A.

RATINGS

The following ratings have been assigned to the Bonds based on an assessment by each rating agency of the Obligated Group's ability to make payments on the Bonds:

Rating Agency	Rating Assigned
S & P	BBB+
Fitch	BBB+

Any further explanation as to the significance of these ratings may be obtained only from the appropriate rating agency. There is no assurance that any such rating will remain in effect for any given period of time or that the rating will not be revised downward or withdrawn entirely by the rating agency furnishing the same, if, in its judgment, the circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds. The above ratings are not recommendations to buy, sell or hold the Bonds.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"), will enter into a bond purchase agreement in which the Underwriter will agree to purchase the Bonds, subject to certain conditions precedent, at a purchase price of $75,934,587.50 (face amount less underwriter's discount of $230,412.50). The Underwriter will purchase all of the Bonds if any are purchased. The Underwriter has arranged for the purchase of the Bonds by its affiliate, Bank of America, N.A. (the "Initial Purchaser"). The Initial Purchaser will have the right to sell or distribute the Bonds or interests therein to subsequent purchasers or investors. Under the bond purchase agreement, the Corporation will agree to indemnify the Underwriter against certain costs, claims and liabilities, including certain liabilities arising under the Securities Act of 1933.

FINANCIAL ADVISOR

Ponder & Co. was engaged by the Corporation to provide financial advisory services in connection with the issuance of the Bonds. Ponder & Co. is a national consulting firm that acts as financial advisor to health care organizations in matters of capital formation, including debt financing, interest rate swaps and strategic capital planning.

RELATED PARTIES

Hunter, Smith & Davis, LLP, counsel to the Corporation and the Obligated Group, is regular counsel to the Issuer on matters unrelated to the Corporation and Obligated Group. McGuireWoods LLP, bond counsel, also represents the Trustee, the Master Trustee and the Underwriter in unrelated transactions.

MISCELLANEOUS

Neither this Official Statement nor any advertisement of the Bonds is to be construed as a contract or agreement with the holders of the Bonds. The agreement of the Issuer, the Corporation and the Obligated Group with the holders of the Bonds is fully set forth in the Bonds and the Financing Documents.

No dealer, broker, salesman or other person has been authorized by the Issuer or the Obligated Group to give any information or to make any representation other than as contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by them.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The Bonds have not been registered under The Securities Act of 1933, as amended, or any state securities laws, and neither the Securities and Exchange Commission nor any state regulatory agency will pass upon the accuracy, completeness or adequacy of this Official Statement. Neither the Indenture nor the Master Indenture has been qualified under the Trust Indenture Act of 1939, as amended.

The information in this Official Statement is provided as of the date of this Official Statement. Nothing contained in this Official Statement shall under any circumstances create an implication that there has been no change in such information after the date of this Official Statement.

The information set forth in this Official Statement has been obtained from the sources which are deemed to be reliable but is not guaranteed as to accuracy or completeness. All estimates and assumptions contained herein are believed to be reliable, but no representation is made that such estimates or assumptions are correct or will be realized.

Certain statements contained in this Official Statement reflect forecasts and forward-looking statements, rather than historical facts. In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe," and similar expressions are intended to identify forward-looking statements. All such forward-looking statements are expressly qualified by the cautionary statements set forth in this Official Statement.

The summaries and explanations of the provisions of the Bonds and the Financing Documents do not purport to be complete, and reference is made to the pertinent provisions of the Bonds and the Financing Documents for a complete statement of their provisions. Such documents are on file and available for review during regular business hours upon request at the corporate trust offices of the Trustee, The Bank of New York Mellon Trust Company, N.A., Corporate Trust Services, 900 Ashwood Parkway, Suite 425, Atlanta, Georgia 30338.

In connection with this offering, the Underwriter may engage in transactions that stabilize, maintain or otherwise affect the price of the Bonds. Such transactions may include purchases of the Bonds for the purpose of maintaining the price of the Bonds. Such transactions, if commenced, may be discontinued at any time.

The attached appendices are integral parts of this Official Statement and must be read together with all of the foregoing statements.

APPROVAL OF USE OF OFFICIAL STATEMENT

The delivery of this Official Statement has been duly authorized by the Issuer and the Obligated Group.

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APPENDIX A.

INFORMATION REGARDING THE OBLIGATED GROUP

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APPENDIX A

INFORMATION CONCERNING WELLMONT HEALTH SYSTEM

The information contained in this Appendix A to this Official Statement has been obtained from Wellmont Health System

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INTRODUCTION

Overview

Wellmont Health System ("Wellmont") is a Tennessee non-profit corporation based in Kingsport, Tennessee and a premier provider of healthcare services in Northeast Tennessee and Southwest Virginia. Wellmont was formed in July 1996 with the merger of Bristol Memorial Hospital in Bristol, Tennessee and Holston Valley Medical Center in Kingsport, Tennessee. Over the past decade, Wellmont has grown to include six additional hospitals, an integrated physician network and several ambulatory sites. Wellmont hospitals offer a broad scope of services ranging from community-based acute care to highly specialized tertiary services including two trauma centers, comprehensive heart care and cancer care.

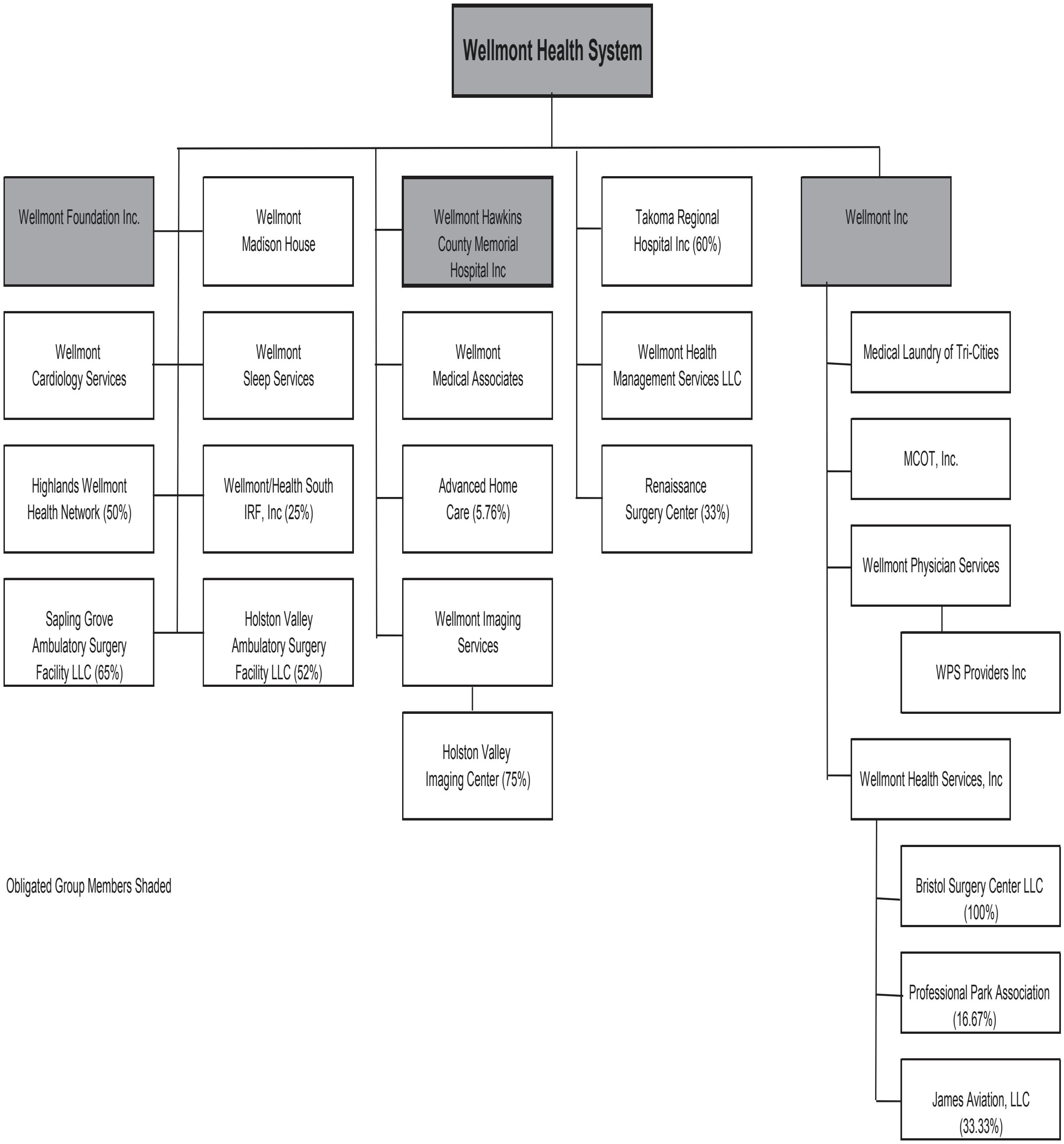
Wellmont owns and operates an integrated health care delivery system providing inpatient, outpatient and other health care services at multiple locations in Northeast Tennessee and Southwest Virginia. Currently, Wellmont owns and operates six acute care hospital facilities and one critical access hospital with a total of 1,253 licensed beds and, through a joint venture, partners to operate an additional acute care hospital facility with 100 licensed beds. The acute care facilities owned by Wellmont include Holston Valley Medical Center, Bristol Regional Medical Center, Mountain View Regional Medical Center in Norton, Virginia, Lee Regional Medical Center in Pennington Gap, Virginia, Lonesome Pine Hospital in Big Stone Gap, Virginia, Hawkins County Memorial Hospital in Rogersville, Tennessee and the critical access hospital, Hancock County Hospital in Sneedville, Tennessee. Wellmont is the majority partner with Adventist Health System at Takoma Regional Hospital, an acute care hospital in Greeneville, Tennessee.

Wellmont also, directly or indirectly, controls, owns or is affiliated with various nonprofit and for-profit corporations and other organizations that currently provide health care and health care-related services throughout the service area. Wellmont and such other entities, as set forth in the organizational chart below, are sometimes collectively referred to in this Appendix A as the "Health System." In addition to the hospital campuses and ambulatory care centers described above, the Health System also operates medical clinics, ambulatory surgery centers, comprehensive cancer care centers, and imaging facilities as further described herein.

Organization

Obligated Group

Wellmont is a member of the Obligated Group (as defined in Appendix C) under the Master Indenture (as defined in Appendix C). The other members of the Obligated Group include Wellmont Hawkins County Memorial Hospital, Inc. ("WHCMH"), Wellmont, Inc. ("Wellmont, Inc."), Wellmont Foundation (the "Foundation") and each other Person (as defined in Appendix C) who becomes a member of the Obligated Group in accordance with the Master Indenture. The Corporation, WHCMH, Wellmont, Inc. and the Foundation are hereinafter in this Appendix A referred to as the Obligated Group. For the fiscal year ended June 30, 2010, the Obligated Group accounted for 89.4% of the System's total net assets, 87.6% of its operating revenues and 64.7% of its operating income. For financial reporting purposes, the results of operations of System affiliates are consolidated with the results of operations of Members of the Obligated Group. It should be noted that given the subsidiary structure of the Corporation, the assets and associated revenues of the unobligated entities are essentially accessible to support debt of the organization.



Obligated Group Members Shaded

FACILITIES

Hospital Campuses

The Health System is licensed to operate 1,253 inpatient beds and, as of December 31, 2010, operated 804 acute care, critical care, psychiatric and rehab beds, 8 hospice beds and 44 long term care beds. The complement of available beds as of December 31, 2010 was as follows:

Available Bed Complement
As of December 31, 2010

	Acute Care	Critical Care	Psychiatric	Rehab	Hospice	Long Term Care	Total
Bristol Regional Medical Center	183	29	26		8		246
Holston Valley Medical Center	258	60					318
Mountain View Regional Medical Center	50	4				44	98
Lee Regional Medical Center	52	6					58
Lonesome Pine Hospital	51	6					57
Hawkins County Memorial Hospital	25	4					29
Hancock County Hospital	10						10
Wholly-owned	**629**	**109**	**26**	**0**	**8**	**44**	**816**
Takoma Regional Hospital	20		10	10			40
TOTAL	**649**	**109**	**36**	**10**	**8**	**44**	**856**

Bristol Regional Medical Center. Bristol Regional Medical Center, founded in 1925, operates in a state-of-the-art facility that opened in January 1994. The 348-bed facility is situated on a 125-acre campus with easy interstate access. Bristol Regional is staffed by 314 board-certified physicians and 1,779 employees. Centers of excellence include the Wellmont CVA Heart Institute, the J.D. and Lorraine Nicewonder Cancer Center, the Primary Stroke Center, cardiac care, a diabetes treatment center, an emergency department and Level II trauma center, inpatient and outpatient hospice care, neuroscience, occupational health, outpatient services, psychiatric care, rehabilitation services, women's health and a Level II neonatal intensive care unit. Bristol Regional was the first hospital in the Southeast to offer CyberKnife radiosurgery for the treatment of cancer and other tumors, and it has recently augmented its robotics program with the Da Vinci Robotic Surgery System.

Holston Valley Medical Center. Holston Valley Medical Center has been located in the Kingsport community since 1935. The 505-bed facility is staffed by 439 board-certified physicians and 2,120 employees. Centers of excellence include the Wellmont CVA Heart Institute, the Christine LaGuardia Phillips Cancer Center, a Level I trauma center (one of six in Tennessee), the Holston Valley Regional Children's Hospital including a Level III neonatal intensive care unit and pediatric intensive care, Madison House, a 27-bed assisted living and adult day care facility, a diabetes treatment center, neuroscience services, outpatient services, rehabilitation services and women's health. Thompson Reuters has named Holston Valley among its top 50 Heart Hospitals in the United States for 2011 and Holston Valley has been ranked Number 1 in Tennessee for cardiology for two years in a row by HealthGrades. Additionally, Holston Valley is the recipient of the 2011 HealthGrades Coronary Intervention Excellence Award™ and is ranked among the top ten percent in the nation for coronary interventional procedures in 2011. In fact, Holston Valley has been five-star rated for coronary interventional procedures two years in a row, five-star rated for treatment of heart failure three years in a row and ranked among the top ten in Tennessee for overall cardiac services two years in a row.

Mountain View Regional Medical Center. Mountain View Regional Medical Center was founded in the Norton, Virginia in 1948. The hospital joined the Wellmont System in 2007. The 118-bed facility (44 long term care beds) is staffed by 55 board-certified physicians and 240 employees. Medical and surgical services are provided with the support of an emergency room and diagnostic imaging including a 64-slice CT/cardiac imaging. Mountain View Regional Medical Center houses the System's only long term care unit.

Lee Regional Medical Center. Lee Regional Medical Center was founded in Pennington Gap, Virginia in 1930 and has served as the only county hospital for more than 70 years. The hospital joined the Wellmont System in 2007. The 70-bed facility is staffed by 34 board-certified physicians and 227 employees. Lee Regional Medical Center provides 24-hour emergency services, as well as a broad array of inpatient and outpatient medical and surgical services. The hospital also offers outpatient rehabilitation and cardiac stress testing.

Lonesome Pine Hospital. Lonesome Pine Hospital, located in Big Stone Gap, Va., is a 60-bed facility that has served the community since 1973. Lonesome Pine joined the Wellmont System in 1997. The facility is staffed by 104 board-certified physicians and 266 employees. Services include emergency care, intensive care, a medical/surgical/pediatric unit and obstetrics. The Southwest Virginia Cancer Center serving medical and radiation oncology patients is part of Lonesome Pine Hospital operations.

Hawkins County Memorial Hospital. On July 1, 2000, Hawkins County Memorial Hospital became the fourth member hospital in the Wellmont Health System. Established in 1961, the 50-bed, primary-care hospital provides care in a rural setting with a staff of 100 board-certified physicians and 203 employees. Services include emergency care, inpatient and outpatient surgery, occupational therapy, physical therapy and radiology. Outpatient clinics include gynecology, cardiology, gastroenterology, neurology, orthopedics, pulmonology, chemotherapy and urology.

Hancock County Hospital. Hancock County Hospital opened in April 2005. This innovative facility has been designated by the state as a critical-access hospital that provides care to a medically underserved region. The hospital was built through a partnership between the Wellmont System and the Hancock County Commission. Dedicated physicians and a staff of 53 employees provide inpatient and outpatient acute care, emergency care, radiology, laboratory services, respiratory therapy and physical therapy.

Takoma Regional Hospital. Takoma Regional Hospital was founded in 1928 in Greeneville, TN. The 100-bed acute care hospital is owned 60/40 and operated 50/50 through a management agreement with Adventist as a joint venture between Wellmont and Adventist Health System since 2007. The 369 employees provide emergency services, obstetric services, surgery, imaging and diagnostic services to the community.

Physician Clinics

Through its integrated physicians, Wellmont offers a network of primary care and specialty clinics located throughout the service area. The Wellmont Clinic is a physician led, professionally managed organization of 113 physicians and over 590 employees that provide nationally recognized cardiovascular care, medical oncology services, pulmonary and sleep services, surgical services, obstetric and gynecological services, family and internal medicine and hospitalists' services through our clinics and hospitals.

Historical Utilization

The following table sets forth selected historical utilization statistics of the inpatient and specialty care facilities owned and operated by Wellmont for fiscal years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2009 and 2010.

Utilization Statistics

	Fiscal Year Ended June 30,			Six months Ended December 31,	
	2008	**2009**	**2010**	**2009**	**2010**
Hospital Statistics:					
Beds In Service	781	781	781	781	781
Discharges	42,401	42,558	41,380	20,468	20,934
Observations	5,973	8,092	9,530	4,633	4,722
Patients in Bed	48,374	50,650	50,910	25,101	25,656
Patient Days	181,400	183,913	177,715	87,962	90,497
Average Length of Stay (Days)	4.28	4.32	4.29	4.30	4.32
Daily Census[(1)]	513	526	513	503	517
Percent Occupancy	65.73%	67.35%	65.69%	64.40%	66.20%
Emergency Room Visits	227,181	222,560	212,383	108,847	101,851
Outpatient Registrations excluding ER	N/A	221,942	218,400	110,346	110,880
Deliveries	2,235	2,229	2,238	1,149	1,112
Surgical Cases:					
Inpatient	10,403	10,684	10,372	5,234	5,040
Outpatient	27,018	28,206	26,187	12,716	13,554
Physician Office Visits:	236,555	242,251	258,263	124,735	149,444

[(1)]Daily Census is Patient Days divided by 365 plus observations

Source: Wellmont management

PROGRAMS AND SERVICES

Specialty Services

Wellmont hospitals offer an array of medical specialties and sub-specialties that remain on the forefront of medical innovation through the partnership and drive of our experienced physicians and caregivers, some of the finest in the Southeast. Each of our medical specialties is complemented by a team of caring professionals dedicated to providing our patients and their families the best possible care.

At Wellmont, we believe there is no substitute for expertise. And we also believe each patient deserves to be cared for in an environment of comfort and healing. We deliver superior care with compassion.

Wellmont CVA Heart Institute. The Wellmont CVA Heart Institute provides a comprehensive cardiovascular program, including preventative, diagnostic, and interventional services on a regionally integrated basis. Wellmont's heart program has been repeatedly recognized for quality outcomes by some of the nation's leading ratings groups and organizations. These awards serve as independent measures of our commitment to quality and provision of the best possible heart care.

The best heart care involves an integrated approach, bringing leading cardiovascular physicians together with cutting-edge cardiovascular technologies and treatments. The Wellmont CVA Heart Institute brings together seamless integration of top-quality heart services on a level never before realized in Northeast Tennessee and Southwest Virginia through the region's only Level One Heart Attack Network.

The Wellmont CVA Heart Institute is:

- 36 leading cardiologists and cardiac surgeons
- Eight member hospitals of Wellmont Health System
- Nine community cardiac offices with locations across Northeast Tennessee and Southwest Virginia

Wellmont Cancer Institute. The Wellmont Cancer Institute provides comprehensive cancer care, including cyberknife robotic radiosurgery, gliasite, image-guided and intensity-modulated radiation therapy, chemotherapy, counseling services, nutritional services, and patient education. More than 20 oncologists and surgeons practice at the Wellmont Cancer Institute. In addition, the Wellmont Cancer Institute performs research on the prevention and treatment of cancer. The Wellmont Cancer Institute locations include:

- The Christine LaGuardia Phillips Cancer Center at Holston Valley Medical Center
- The J.D. and Lorraine Nicewonder Cancer Center at Bristol Regional Medical Center
- Kingsport Hematology Oncology on Holston Valley Medical Center's outpatient campus
- Tri-City Oncology Center on Bristol Regional Medical Center's campus
- Blue Ridge Medical Specialists on the Bristol Regional Medical Center campus
- The Southwest Virginia Cancer Center, Norton, Va.
- Abingdon Hematology Oncology, Abingdon, Va

Wellmont Stroke Center. As the first certified primary stroke center in the region, the Primary Stroke Center at Bristol Regional Medical Center leads the way in exceptional stroke care. Bristol Regional is a founding member of the Appalachian Regional Stroke Center Network (ARSCN).

The Primary Stroke Center at Bristol Regional has full neurological coverage 24 hours a day, seven days a week. The professionals at the stroke center also provide their expertise to the member hospitals of the ARSCN when a patient presents with stroke. Along with Bristol Regional, Lonesome Pine Hospital is a founding member of the ARSCN. Holston Valley Medical Center also provides specialized stroke care.

Wellmont Emergency Services. Wellmont provides emergency services at all eight hospitals with one of the State's six Level I Trauma Centers located at Holston Valley Medical Center and affiliated with East Tennessee State University and its traumatologists. Bristol Regional Hospital offers Level II Trauma Center services. Our Holston Valley and Bristol Regional trauma programs are supported by WellmontOne Air Transport and by MedFlight (a partnership with the Virginia State Police). The emergency departments at all Wellmont Hospitals are staffed with exceptionally trained and highly experienced staff members and physicians to ensure the best care possible. Patient care liaisons and pastoral care staff are available to provide additional resources, spiritual counseling and emotional support.

Other Services

Marsh Regional Blood Center. Since its establishment as the region's first independent blood bank at Holston Valley Community Hospital in 1947, the goal of Marsh Regional Blood Center has been to collect and maintain a local blood supply to meet local needs. Through generous support from donors, it has grown steadily. In 1987, it was officially named Marsh Regional in honor of Lois Marsh, its founder and supervisor for forty years.

Today, Marsh Regional continues to operate as an independent blood center, providing a safe and affordable blood supply to hospitals and other medical facilities throughout Northeast Tennessee and Southwest Virginia. Each year Marsh Regional collects, processes, tests, stores and distributes tens of thousands of units of blood and blood products.

Marsh Regional Blood Center is a member of **American Association of Blood Banks** and the **Tennessee Association of Blood Banks** and is a federally inspected and licensed blood center through the **Food & Drug Administration**.

Wellmont Nurse Connection. Wellmont Nurse Connection provides health information any time, 24 hours a day, seven days a week. Experienced nurses are available to answer questions via a toll free Wellmont Nurse Connection phone line. An online library may be accessed by patients to learn more about a variety of essential health topics.

Wellmont's Healing Environment. Wellmont's Healing Environment utilizes Shepherds, specially trained and empowered caregivers who exhibit a passion for helping patients heal – physically, mentally and spiritually. These Shepherds are dedicated to creating healing spaces around us, healing attitudes within us and healing relationships between us.

The Healing Environment focuses as much energy on healing patients as it does on curing diseases. In a Healing Environment, patients are the focal points. Decisions are made and actions are taken with our patients first and foremost in mind.

The Healing Environment is not a new concept. Its principles are rooted in the basic concepts of medicine and in the idea that we are each capable of being a Good Samaritan. At times, that may involve the simple offering of a kind word or a compassionate heart. And the Healing Environment acknowledges that sometimes, when that is all we have to give, it is also what is most needed.

The Healing Environment is more than a program or a set of guidelines for care. It is a concept that takes care to another level and a set of principles that promotes true healing.

Other Activities

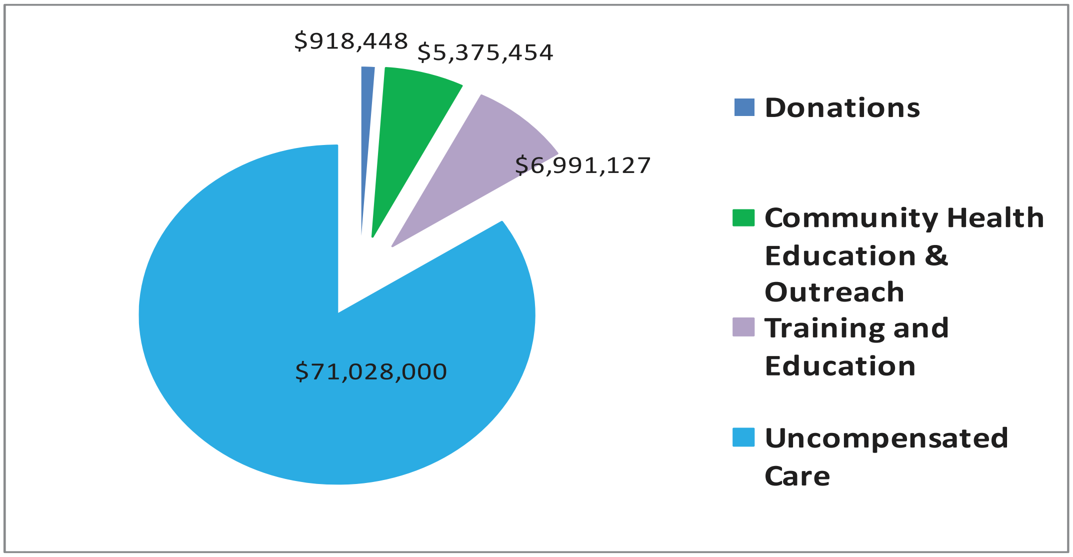
Graduate Medical Education. Wellmont operates seven accredited residency training programs through affiliations with East Tennessee State University and Lincoln Memorial University: two in Family Medicine, two in Internal Medicine, two in General Surgery and one osteopathic family medicine program. Eighty-three full-time residents participate in the seven programs. Wellmont will be adding a new osteopathic orthopedic residency program affiliated with Lincoln Memorial University in July 2011 with 6 additional residents.

Other Education Programs. Wellmont participates in other education programs for a variety of patient care professions. The 156 programs with 79 different institutions include registered nurse, certified nursing assistant, physical therapist, surgical technician and respiratory therapist training programs.

Community Health Education. Wellmont offers a variety of courses for the community, as well as for patients and families. Through free health fairs, screenings, lectures and events, we devote significant financial and human resources to help area residents become more aware of their health and wellness. Wellmont serves as the regional affiliate for Children's Miracle Network Hospitals and the American Heart Association's Go Red for Women initiative and supports Susan G. Komen for the Cure.

CHARITY CARE

Wellmont offers free or discounted hospital services for those who cannot afford to pay. At Wellmont, a patient with an annual income of less than 200% of the federal poverty level will qualify for a full uncompensated care write-off. In 2010, the cost to Wellmont of providing uncompensated care was $71 million. Wellmont provides financial assistance for uninsured patients in cases when the annual family income is over 200% of the federal poverty level and the account balance is equal to or greater than 100% of the patients total annual household income. Wellmont has adopted a charity care policy that is designed to ensure that financial constraints are not a barrier to the provision of care.



SERVICE AREA AND COMPETITION

Composition of Service Area

Wellmont's service area is defined by management at the county level based on patient activity and locations of our campuses. The primary service area ("PSA") includes the Tennessee counties of Sullivan, Hawkins and Hancock and the Virginia counties of Washington, Wise, Lee and Scott. The Virginia secondary service area ("VSSA") is defined as Russell, Buchanan, Smyth, Tazewell, Dickenson and Wythe counties. The Tennessee secondary service area ("TSSA") is defined as Washington, Greene, Carter, Johnson and Unicoi counties. The map below details the service area:

Demographic Information

Below is certain demographic information for Wellmont's Service Area:

WHS Market Population, Growth and Household Income

	2010 Total Pop	2015 Total Pop	2010-2015 Growth	2010 Median HH Income
Primary Service Area				
Sullivan, TN	158,441	159,123	0.4%	$40,490
Washington, VA	69,294	70,053	1.1%	$40,298
Wise, VA	49,083	48,461	-1.3%	$33,715
Hawkins, TN	55,420	57,285	3.4%	$34,630
Lee, VA	22,479	22,711	1.0%	$30,703
Scott, VA	23,894	23,834	-0.3%	$34,695
Hancock, TN	6,074	6,008	-1.1%	$39,794
	384,685	**387,475**	**0.7%**	**$37,711**
Secondary Service Area				
Russell, VA	29,223	28,847	-1.3%	$34,564
Washington, TN	133,110	140,203	5.3%	$41,280
Buchanan, VA	24,667	23,000	-6.8%	$28,037
Smyth, VA	32,010	31,185	-2.6%	$36,892
Tazewell, VA	42,107	41,470	-1.5%	$36,754
Dickenson, VA	14,730	14,617	-0.8%	$29,698
Greene, TN	64,833	66,282	2.2%	$35,725
Carter, TN	46,870	47,657	1.7%	$32,003
Wythe, VA	31,116	31,418	1.0%	$40,043
Johnson, TN	19,620	19,902	1.4%	$28,627
Unicoi, TN	17,894	17,895	0.0%	$36,135
	456,180	**462,476**	**1.4%**	**$33,982**

Source: MedStat

Percentage Rate of Unemployment

	2008	2009	2010
Primary Service Area			
Sullivan, TN	5.4%	8.9%	9.3%
Washington, VA	4.9%	8.5%	9.1%
Wise, VA	4.6%	7.0%	7.5%
Hawkins, TN	6.8%	11.4%	10.3%
Lee, VA	5.3%	7.1%	7.5%
Scott, VA	5.4%	9.5%	10.4%
Hancock, TN	8.4%	15.2%	16.4%
Secondary Service Area			
Russell, VA	5.7%	10.8%	9.6%
Washington, TN	5.7%	8.8%	9.1%
Buchanan, VA	5.0%	9.0%	8.7%
Smyth, VA	6.1%	11.4%	10.8%
Tazewell, VA	4.4%	7.6%	6.7%
Dickenson, VA	5.7%	9.0%	8.4%
Greene, TN	9.5%	15.9%	15.2%
Carter, TN	6.7%	10.3%	10.6%
Wythe, VA	5.3%	10.6%	10.2%
Johnson, TN	5.1%	12.6%	13.8%
Unicoi, TN	7.5%	11.6%	12.2%
Tennessee	6.7%	10.5%	9.7%
Virginia	3.9%	6.7%	6.9%
United States	5.8%	9.3%	9.7%

Source: U.S. Bureau of Labor Statistics

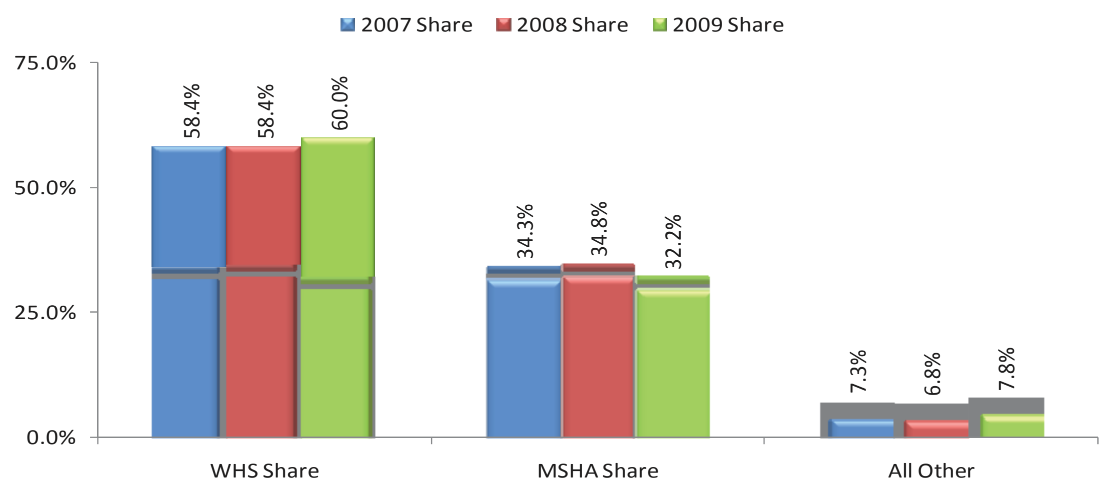
Patient Origin by Service Area

The following tables show patient volume based on service area for Wellmont during fiscal years 2009 and 2010.

	WHS Inpatient Origin				WHS Outpatient Origin			
	FY 2009	FY 2010	FY 10 % to Total	FY 09 - FY 10 Growth	FY 2009	FY 2010	FY 10 % to Total	FY 09 - FY 10 Growth
Primary Service Area								
Sullivan, TN	14,151	13,885	31.1%	-1.9%	134,629	132,098	34.0%	-1.9%
Washington, VA	5,526	5,626	12.6%	1.8%	44,036	43,122	11.1%	-2.1%
Wise, VA	5,505	5,186	11.6%	-5.8%	56,738	60,429	15.6%	6.5%
Hawkins, TN	4,860	4,795	10.7%	-1.3%	47,731	46,214	11.9%	-3.2%
Lee, VA	3,809	3,651	8.2%	-4.2%	41,653	40,725	10.5%	-2.2%
Scott, VA	2,641	2,640	5.9%	0.0%	17,427	17,440	4.5%	0.1%
Hancock, TN	849	859	1.9%	1.2%	6,472	6,223	1.6%	-3.9%
PSA Total	**37,341**	**36,642**	**81.9%**	**-1.9%**	**348,686**	**346,251**	89.1%	**-0.7%**
Secondary Service Area								
Russell, VA	1,149	1,124	2.5%	-2.2%	6,187	6,408	1.7%	3.6%
Washington, TN	1,036	1,050	2.4%	1.4%	8,637	8,318	2.1%	-3.7%
Buchanan, VA	835	777	1.7%	-7.0%	2,247	2,452	0.6%	9.1%
Smyth, VA	782	717	1.6%	-8.3%	3,548	3,286	0.9%	-7.4%
Tazewell, VA	752	876	2.0%	16.5%	2,197	2,481	0.6%	12.9%
Dickenson, VA	717	742	1.7%	3.5%	4,895	4,952	1.3%	1.2%
Greene, TN	466	516	1.2%	10.7%	1,982	2,062	0.5%	4.0%
Carter, TN	173	184	0.4%	6.4%	1,276	1,189	0.3%	-6.8%
Wythe, VA	164	148	0.3%	-9.8%	414	432	0.1%	4.4%
Johnson, TN	108	133	0.3%	23.2%	693	648	0.2%	-6.5%
Unicoi, TN	44	27	0.1%	-38.6%	288	223	0.1%	-22.6%
SSA Total	**6,226**	**6,294**	**14.1%**	**1.1%**	**32,364**	**32,451**	8.4%	**0.3%**
All Other	1,874	1,785	4.0%	-4.8%	11,025	9,984	2.6%	-9.4%
GRAND TOTAL	**45,441**	**44,721**	**100.0%**	**-1.6%**	**392,075**	**388,686**	100.0%	**-0.9%**

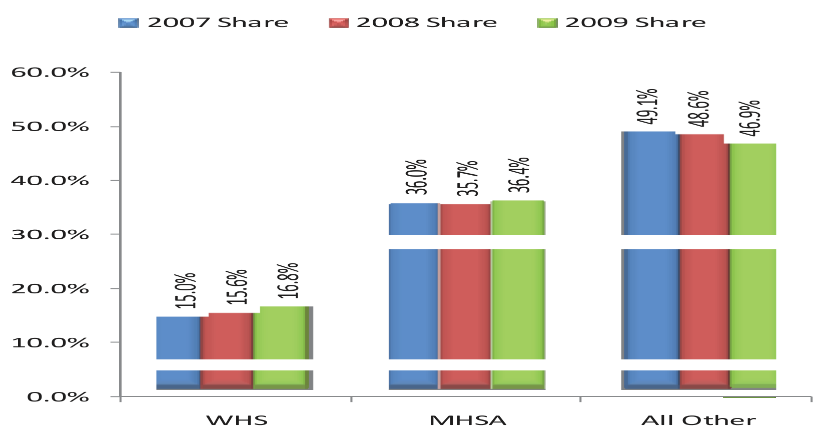
Source: Wellmont Patient Encounter Records

2007-2009 Inpatient Market Share – PSA

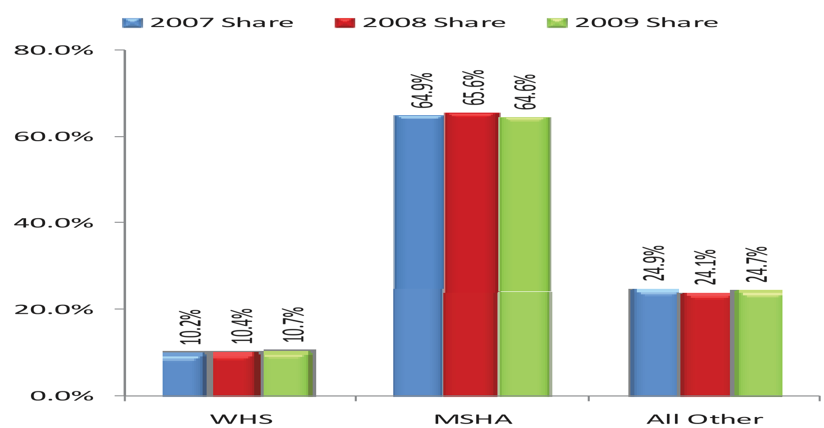


WHS – Wellmont Health System; MSHA – Mountain States Health Alliance

2007-2009 Inpatient Market Share – VSSA



2007-2009 Inpatient Market Share – TSSA



HISTORICAL FINANCIAL INFORMATION

General

The following consolidated financial results of operations and changes in net assets and consolidated balance sheets of Wellmont and its affiliates (all of which are listed in the organizational chart on page A-2 hereof and collectively hereinafter referred to as "Wellmont and Affiliates") as of and for the years ended June 30, 2008, June 30, 2009 and June 30, 2010 are derived from consolidated financial statements which have been audited by KPMG, LLP, independent auditors. The financial information below and in audited financial statements of Wellmont and Affiliates, included in Appendix B hereto, includes affiliates of Wellmont that are not Members of the Obligated Group. Affiliates of Wellmont which are not Members of the Obligated Group contributed less than 1.5% of the total revenues for the fiscal years ended June 30, 2008, 2009 and 2010 and less than 1.5% of the total revenues for the six-months ended December 31, 2009 and 2010. The data should be read in conjunction with the consolidated audited financial statements, related notes and other financial information contained herein as Appendix B.

Summary Financial Information

The following consolidated statement of operations and changes in net assets and balance sheets of Wellmont and Affiliates for the three fiscal years ended June 30, 2008, 2009 and 2010 have been derived from the audited consolidated financial statements of Wellmont and Affiliates. The complete audited consolidated financial statements and supplemental information for the fiscal years ended June 30, 2009 and 2010 are included in APPENDIX B – "WELLMONT HEALTH SYSTEM AND AFFILIATES CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION" hereto. The following summary consolidated financial information should be read in conjunction with the section herein entitled "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL INFORMATION" and the complete audited consolidated financial statements and related notes that appear in APPENDIX B.

The following consolidated statement of operations and changes in net assets and balance sheets of Wellmont and Affiliates for the six months ended December 31, 2009 and 2010 were derived from the internal unaudited financial statements for such periods. The financial data for the six months ended December 31, 2009 and 2010 include all adjustments management of Wellmont considers necessary to present such information in conformity with accounting principles generally accepted in the United States of America on a basis consistent with that of the audited financial statements for the fiscal year ended June 30, 2010. The results of operations and changes in net assets for the six months ended December 31, 2010 are not necessarily indicative of the operating results to be expected for the entire fiscal year ending June 30, 2011.

Wellmont Health System and Affiliates
Combined Statements of Operations and Changes in Net Assets
(Dollars in Thousands)

	Fiscal Years ended June 30,			6 months ended December 31,	
	2008	2009	2010	2009 Unaudited	2010 Unaudited
Revenue:					
Net patient revenue	$679,874	$680,056	$692,920	$342,363	$375,374
Other revenue	27,211	27,842	31,472	15,968	14,488
Total revenue	707,085	707,898	724,392	358,331	389,862
Expenses:					
Salaries and benefits	314,034	323,801	310,667	152,813	170,104
Medical supplies and drugs	134,304	141,044	150,143	74,499	80,131
Purchased services	81,824	81,031	74,922	36,342	39,455
Interest	14,279	16,013	20,110	8,933	10,819
Provision for bad debts	57,794	33,402	35,293	17,888	18,258
Depreciation and amortization	39,421	42,957	43,711	20,981	23,201
Other	63,038	62,604	66,734	31,445	43,514
Total expenses	704,694	700,852	701,580	342,901	385,482
Income from operations	$2,391	$7,046	$22,812	$15,430	$4,380
Nonoperating gains (losses)(1):					
Investment income	31,580	4,181	1,012	5,153	6,960
Derivative valuation adjustments	(4,539)	(5,747)	(2,693)	2,584	1,685
Other, net	(42)	293	(805)	-	(611)
Nonoperating (losses) gains, net	26,999	(1,273)	(2,486)	7,737	8,034
Revenues and gains in excess of expenses and losses before discontinued operations and noncontrolling interests	$29,390	$5,773	$20,326	$23,167	$12,414
Discontinued operations	(6,976)	(4,455)	(1,109)	(878)	86
Revenues and gains in excess of expenses and losses	$22,414	$1,318	$19,217	$22,289	$12,500
Income attributable to noncontrolling interests	(177)	(918)	(1,065)	(531)	(779)
Revenues and gains in excess of expenses and losses attributable to WHS	$22,237	$400	$18,152	$21,758	$11,721
Other changes in unrestricted net assets (1):					
Change in net unrealized gains (losses) on investments	(40,398)	(60,663)	22,312	26,400	31,982
Net assets released from restrictions for additions to land, buildings and equipment	2,124	2,758	1,555	386	1,156
Transfer to/from permanently restricted net assets	-	-	-	79	-
Change in the funded status of benefit plans and other	(1,536)	(13,568)	(3,429)	(843)	14
Increase (decrease) in unrestricted net assets	(17,573)	(71,073)	38,590	47,780	44,873
Changes in temporarily restricted net assets:					
Contributions	3,539	1,944	2,934	1,132	1,280
Net assets released from temporary restrictions	(2,124)	(3,154)	(1,972)	(482)	(1,372)
Increase (decrease) in temporarily restricted net assets	1,415	(1,210)	962	650	(92)
Changes in permanently restricted net assets:					
Transfer to/from unrestricted net assets	-	-	-	(79)	-
Permanently restricted contributions and investment income	10	645	(77)	1	2
Increase (decrease) in permanently restricted net assets	10	645	(77)	(78)	2
Changes in noncontrolling interests (1):					
Adjustment to noncontrolling interest from the adoption of authoritative guidance	1,142	-	-	-	-
Income attributable to non-contolling interests	177	918	1,065	531	871
Distributions to noncontrolling interests	-	(426)	(711)	(537)	(671)
Changes in noncontrolling percentages	-	243	(21)	-	(92)
Increase (decrease) in noncontrolling interests	1,319	735	333	(6)	108
Change in net assets (1)	(14,829)	(70,903)	39,808	48,346	44,891
Net assets, beginning of period (1)	412,650	397,821	326,918	326,918	366,726
Net assets, end of period (1)	$397,821	$326,918	$366,726	$375,264	$411,617

(1) Reflects change from "minority interests" to "noncontrolling interests" from the adoption of authoritative guidance and reflects Medical Mall Pharmacy as discontinued operations for all periods.

Wellmont Health System and Affiliates
Consolidated Balance Sheets
(Dollars in Thousands)

	June 30,			December 31,	
	2008	**2009**	**2010**	***2009* Unaudited**	**2010 Unaudited**
Current assets:					
Cash and cash equivalents	$ 13,787	$ 60,889	$ 35,711	$ 55,608	$ 50,068
Assets limited as to use	2,235	2,201	1,815	-	-
Patient accounts receivable	109,514	98,071	94,057	90,510	104,374
Other receivables	12,714	11,173	10,919	10,994	9,953
Inventories	16,816	17,169	18,294	17,911	18,050
Prepaid expenses & other current assets	6,008	6,040	7,003	6,840	9,017
Total current assets	161,074	195,543	167,799	181,863	191,462
AWUIL, net of current portion	346,414	245,600	301,807	268,298	297,211
Land, buildings and equipment, net	406,214	442,610	450,205	449,736	446,569
Other assets:					
Long-term investments	35,571	31,974	32,391	34,707	35,324
Investments in affiliates	29,155	31,976	32,019	32,180	31,084
Deferred debt expense, net	5,062	4,824	4,644	4,728	4,709
Goodwill, net	9,641	9,509	9,501	9,496	16,628
Other	7,059	798	730	713	2,304
	86,488	79,081	79,285	81,824	90,049
Total assets	$ 1,000,190	$ 962,834	$ 999,096	$ 981,721	$ 1,025,291
Current liabilities:					
Current portion of long-term debt	$ 10,237	$ 13,197	$ 11,958	$ 11,846	$ 9,858
Line of credit/Short-term notes	17,932	15,811	14,000	14,000	14,000
Accounts payable and accrued expenses	76,958	77,139	74,679	62,536	67,316
Estimated third-party payor settlements	2,086	12,441	11,672	9,300	13,820
Current portion of other LT liabilities	4,915	6,352	7,251	6,802	8,380
Total current liabilities	112,128	124,940	119,560	104,484	113,374
Long-term debt, less current portion	469,321	474,608	467,833	466,841	456,086
Other long-term liabilities, less current(1)	20,920	36,368	44,977	35,132	44,214
Total liabilities	602,369	635,916	632,370	606,457	613,674
Net assets:					
Unrestricted	391,103	320,030	358,620	367,731	403,491
Temporarily restricted	4,799	3,589	4,551	4,239	4,460
Permanently restricted	600	1,245	1,168	1,246	1,170
Noncontrolling interests (1)	1,319	2,054	2,387	2,048	2,496
Total net assets	397,821	326,918	366,726	375,264	411,617
Total liabilities and net assets	$ 1,000,190	$ 962,834	$ 999,096	$ 981,721	$ 1,025,291

(1) Reflects change from "minority interests" to "noncontrolling interests" from the adoption of authoritative guidance.

Sources of Patient Service Revenue

The following table shows the percentage of gross patient service revenue by payor for the fiscal years ended June 30, 2008, 2009 and 2010, and the six months ended December 31, 2010.

Sources of Revenue

	June 30,			December 31,
	2008	2009	2010	2010
Medicare	34.5%	33.6%	32.5%	32.7%
Medicaid	13.5%	13.5%	13.5%	12.9%
Self Pay	6.1%	6.2%	6.5%	6.7%
Medicare Managed Care	14.7%	17.0%	18.4%	18.8%
Managed Care	25.8%	25.1%	25.0%	25.3%
Other	5.4%	4.7%	4.2%	3.5%
	100.0%	100.0%	100.0%	100.0%

Source: Wellmont management

Approximately 49 percent of Wellmont's revenue sources are under managed care contracts – 6% in TennCare, 19% in Medicare Managed Care and 25% in Managed Care. The Medicare and TennCare contracts cover 127,000 lives in our service area. Wellmont Health System has contracts with 29 different managed care companies. Approximately 87 percent of our managed care revenues are concentrated with four different payors. Our contracts are normally reimbursed on a case basis with a percent of charge applied to most outpatient business.

Capitalization

The following table sets forth the capitalization ratios for Wellmont and Affiliates as of June 30, 2008, 2009 and 2010 and as of December 31, 2010.

		June 30			December 31
		2008	2009	2010	2010
		(dollars in thousands)			
Capitalization					
Current portion of long-term debt		$ 10,237	$ 13,197	$ 11,958	$ 9,858
Lines of credit/short-term notes payable		17,932	15,811	14,000	14,000
Long-term debt, less current portion	A	469,321	474,608	467,833	456,086
Total debt		497,490	503,616	493,791	479,944
Unrestricted net assets	B	391,103	320,030	358,620	403,491
Other net assets		6,718	6,888	8,106	8,126
Total net assets		397,821	326,918	366,726	411,617
Long-term debt plus Unrestricted net assets	A+B	$ 860,424	$ 794,638	$ 826,453	$ 859,577
Long-term debt to Capitalization	A/(A+B)	0.545	0.597	0.566	0.531

Estimated Days Cash on Hand

The following table sets forth, for Wellmont and Affiliates, on a consolidated basis, the annual days cash on hand ratios for the fiscal years ended June 30, 2008, 2009 and 2010, and twelve months ended December 31, 2010.

	June 30			December 31
	2008	2009	2010	2010
	(dollars in thousands)			
Days Cash on Hand				
Unrestricted cash	$ 13,787	$ 60,889	$ 35,711	$ 50,068
Unrestricted investments:				
Capital improvements	200,469	157,467	247,674	244,120
Long-term investments	35,571	31,974	32,391	35,324
Less illiquid investments	(40,803)	(34,682)	(35,003)	(36,253)
	209,024	215,648	280,773	293,259
Operating expenses (12 months)	704,694	700,852	701,580	744,161
Less depreciation and amortization	(39,421)	(42,957)	(43,711)	(45,931)
Total cash expenses	665,273	657,895	657,869	698,230
Number of days in the period	366	365	365	365
Daily cash operating expenses	$ 1,818	$ 1,802	$ 1,802	$ 1,913
Days cash on hand	114.99	119.64	155.78	153.30

Historical Annual Debt Service Coverage

The following table sets forth, for Wellmont and Affiliates, on a consolidated basis, the actual historical annual debt service coverage ratio calculated in accordance with the Master Indenture for the fiscal years ended June 30, 2008, 2009 and 2010, and twelve months ended December 31, 2010.

		June 30			December 31
		2008	2009	2010	2010
		(dollars in thousands)			
Debt Service Coverage					
Revenue and gains in excess of expenses and losses (12 months)		$ 22,414	$ 1,318	$ 19,217	$ 9,428
Add back:					
Depreciation and amortization (12 months)		39,421	42,957	43,711	45,931
Interest expense (12 months)		14,279	16,013	20,110	21,996
Loss from discontinued operations (12 months)		6,976	4,455	1,109	145
Total income available for debt service per Master Trust Indenture	C	83,090	64,743	84,147	77,500
Maximum annual debt service	D	$ 38,050	$ 38,050	$ 38,050	$ 37,810
Debt Service Coverage Ratio per Master Trust Indenture	C/D	2.18	1.70	2.21	2.05

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL INFORMATION

Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates include: the carrying amounts for goodwill, and property, plant, and equipment; valuation allowances for receivables; and liabilities for claims incurred but not reported under self-insured programs. Actual results could differ from those estimates.

For more information regarding Wellmont's accounting policies, see the notes to the audited consolidated financial statements that appear in APPENDIX B.

Historical Performance

Fiscal Year Ended June 30, 2009 vs. 2008

Net patient collections (defined as net patient revenues less bad debt) increased by $24.6 million or 4.0 percent for the fiscal year ended June 30, 2009 compared to the same period in 2008. Patients in a bed, excluding newborns, were 50,650, which represented an increase of 2,276 (4.7 percent). Gross revenues increased by $69.0 million resulting from utilization increases as additional operations came on line. Contractual adjustments and bad debt were higher by $40.0 million, reflective of modest payor mix changes. Charity care increased by $4.5 million versus 2008, reflective of the overall utilization increases. The increase is net of the effect of reclassification of certain accounts as charity care versus bad debt due to a policy change.

Salaries, benefits and purchased services increased by $9.0 million or 2.3 percent. Rate of pay and benefits increases provided to employees caused the increase. Supply costs increased by $6.7 million or 5.0 percent as a result of volume along with increases in price and mix of services provided. Other direct expenses decreased slightly ($0.4 million or 0.7 percent) over the same period last year. This was caused by increases in lease, rental, repair and maintenance offset by consulting and discretionary spending control.

Bad debt expense reflects a significant decrease due to a change in policy resulting in a reclassification of accounts as charity versus bad debt in FY 2009. The slight net increase associated with volume and shift to Medicare Managed Care is reflected in the net collections discussed above.

Interest, depreciation and amortization increased by $5.3 million or 9.8 percent related to purchases and Project Platinum coming on line.

Operating income was a $7.1 million or a 1.0 percent margin compared to $2.4 million or a .30 percent margin for fiscal year 2008.

Investment income was lower in fiscal year 2009 than in fiscal year 2008 given greater investment market volatility. Discontinued operations included the impact of Jenkins Community Hospital and Medical Mall Pharmacy over the two periods.

Excess of Revenues over Expenses was $1.3 million in fiscal year 2009 compared to $22.4 million for fiscal year 2008.

Fiscal Year Ended June 30, 2010 vs. 2009

Net patient collections increased by $11.0 million or 1.7 percent for the fiscal year ended June 30, 2010 compared to the same period in 2009. Patients in a bed, excluding newborns, were 50,910, which represented an increase of 260 (.5 percent). Gross revenues decreased by $19.2 million resulting from overall volume and utilization decreases. Contractual adjustments and bad debt were lower by $27.1

million, reflective of utilization changes and improvements in reimbursement and contracted rates. Charity care decreased by $2.9 million versus 2009, reflective of the utilization changes combined with slight payor mix changes.

Salaries, benefits and purchased services expenses decreased year over year by $19.2 million or 4.8 percent. This decrease was driven by a reduction of full time equivalents and contractual obligation negotiations to reduce costs and right size operations. Supply expense was higher year over year by $9.1 million or 6.5 percent. $4 million of the supply increase is directly related to the increase in blood products. Drug costs drove another $3.8 million of the increase primarily related to oncology drug costs. Other operating expense increased by $4.1 million or 6.6 percent as a result of fees and other changes in expense structure associated with the right-sizing.

Bad debt expense increased by $1.9 million or 5.7 percent because employers and payors shifted a larger amount of expenses to co-payments and deductibles.

Interest, depreciation and amortization increased by $4.8 million or 8.2 percent related to Project Platinum coming on line and additional debt-related expenses.

Operating income was $22.8 million or a 3.2 percent margin in fiscal year 2010, compared to $7.1 million or a 1.0 percent margin in fiscal year 2009.

Investment income was lower in FY 2010 as a result of continued volatility in the market and the recognition of other than temporary losses. Discontinued operations were driven by the recognition of the sale of the Medical Mall Pharmacy operation.

Excess of Revenues over Expenses was $19.2 million compared to $1.3 million in the prior fiscal year.

Interim Six-Months Ended December 31, 2010 vs. 2009

Net patient revenue has grown 2.0% or $6.9 million over the previous six month period last year. This excludes the additional revenue of $16.6 million reported as a result of the merger of the cardiology practice in May 2010 and $9.5 million related to the TennCare fee assessment. The $9.5 million of fee assessment is offset in other expenses. Other revenue shows a decrease as a result of poor performance related to the Takoma joint venture.

Salaries and benefits for the six month period has increased over last year-to-date by $1.9 million or 1.2% , net of cardiology practice expenses of $15.4 million, driven by the increase in FTEs for patient care as well as to support computerized order entry and electronic health record system build and implementation. Supplies have increased by $4.6 million or 6.1%, net of cardiology practice expenses of $1.1 million, driven by higher drug costs, particularly in oncology, and utilization as well as volume.

Other expenses increased in the period over the same period last year by $0.7 million as a result of increases in rental to support new operations and increases in maintenance for software systems.

Interest and depreciation increases are related to the completion of Project Platinum

Year-to-date, growth in expenses has out-stripped the growth in revenues resulting in a 1.1% operating margin.

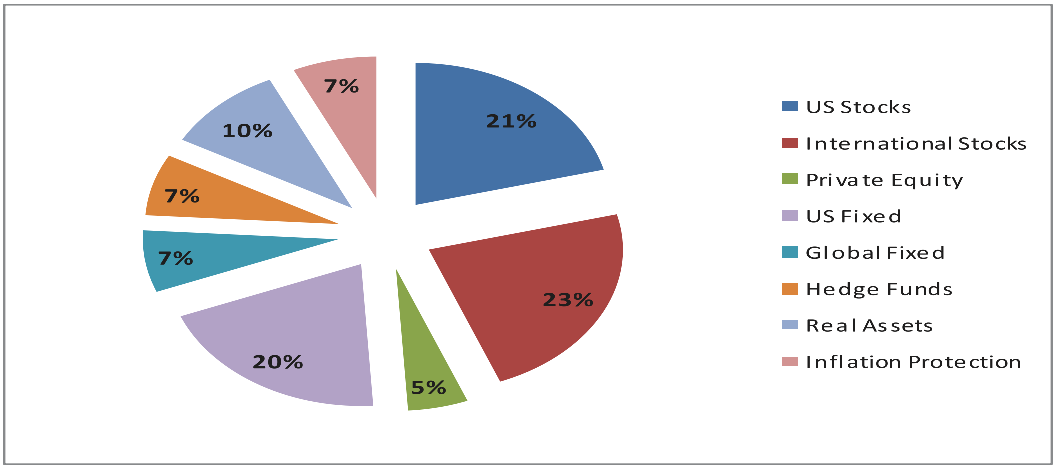
Investments are performing well with the rebound in the market while the mark-to-market on our derivatives is not as volatile as last year.

Discontinued operations include changes related to the valuation of the Jenkins' accounts receivable where last year also includes the Medical Mall Pharmacy operations.

Excess of Revenues over Expenses was $12.5 million compared to $22.3 million in the prior fiscal year.

Liquidity and Investment Policy

At December 31, 2010, Wellmont Health System had approximately $293.3 million of unrestricted cash and cash equivalents and investments. The following chart sets forth the asset allocation of those funds.



Board-designated investments are invested pursuant to an investment policy approved by the Board (the "Investment Policy"). The policy specifies allowable investments, liquidity needs, performance benchmarks and asset allocation guidelines. The Board has delegated the implementation of this policy to the Finance and Investment Committee, which consists of members of the Board and other appointed members.

At the beginning of 2010, Wellmont completed a revision to the Investment Policy and implemented an asset allocation study for the investment portfolio. Wellmont relied on an external investment consultant to conduct a study that reviewed the existing investment pool and associated allocations and the efficiency of the investment pool's performance to date. The investment advisor, at the direction of Wellmont management, considered the operating characteristics, including time horizon, liquidity requirements, return expectations and risk tolerance, as well as the overall objective for the investment pool for incorporation into its investment policy and asset allocations recommendation. The allocation targets for the investment pool were adopted as follows: 28% fixed income (risk reduction assets), 21% domestic equity, 21% international equity, 3% emerging market, 5% private equity/special purposes, 6% hedge funds and 16% in inflation protection assets. These target allocations are based upon a long-term outlook. Performance is monitored regularly and adjustments are made if necessary. Actual allocations may differ from target allocations in the short-term or during periods of significant market fluctuations, and there can be no assurance that Wellmont will always rebalance the investment portfolios.

The investment policies are subject to revision from time to time by the Finance and Investment Committee. There can be no assurance that Wellmont will achieve its investment objectives or that it will receive any return on their investments. Investment performance may be volatile, and Wellmont may lose a significant portion of its investment portfolio. Adverse economic and market conditions or other events could result in substantial or total loss in respect of some or all investments.

Achievement of investment income is subject to significant risks and Wellmont can give no assurance that its investments will generate any particular level of return. See "BONDHOLDERS' RISKS" in the forepart of this Official Statement. If Wellmont suffers investment losses, their business plans and financial results could be materially impacted.

Retirement Plan

Wellmont sponsors a retirement program and defined contribution retirement plan (Retirement Plan) that covers substantially all employees. This program and the related Retirement Plan were created from amendments, restatements, and mergers of existing defined contribution plans at Holston Valley and Bristol Regional. Wellmont makes annual contributions to the Retirement Plan in an amount equal to three percent of each participant's base wages and contributes an additional amount, based on each participant's voluntary contributions, which cannot exceed certain limits established in the Internal Revenue Service Code, up to three percent of each participant's wages.

In addition, there is a legacy Wellmont Health System Defined Benefit Plan that includes grandfathered employees at Holston Valley and Lonesome Pine Hospitals. The Defined Benefit Plan is frozen and no further benefits accrue. The plan is actuarially valued annually and Wellmont recognizes the funded status as an asset or liability in its consolidated balance sheets and recognizes changes in funded status in the year in which the change occurs as a change in unrestricted net assets.

Certain Indebtedness and Liabilities

Wellmont's current and projected debt profiles (refinancing the 2006A Bonds with fixed rate debt with the same maturity to 2032 and replacing the letter of credit issued by Bank of America, N.A. securing the Series 2005 Bonds with a letter of credit issued by JP Morgan Chase Bank, N.A.) are shown in the schedules below:

Current Debt Profile:

Series	Par Outstanding	Structure	Credit Enhancement	Swaps	Maturity
2003	36,665,000	Fixed Rate	Radian		2019
2005	59,580,000	VRDBs	LOC (BAML)	Fixed Payer	2032
2006A	76,595,000	Index Floating Rate		TRS/Fixed Payer	2032
2006C	200,000,000	Fixed Rate			2036
2007A	55,000,000	Fixed Rate			2037
Capital Leases	19,270,174	Fixed Rate			Various
Notes Payable	5,944,842	Fixed Rate			Various
Line of Credit	14,000,000				2011
Series 2010 BQ	30,000,000	Index Floating Rate			2026
	497,055,016				

As of December 31, 2010

SWAP Profile:

Series	Notional	Related Bonds	Maturity	Receive	Pay	MTM
Basis Swap	62,730,000	Series 2002 (defeased)	2032	73.8% LIBOR	SIFMA	(2,267,701)
Total Return Swap	76,595,000	Series 2006A	2011	Bond Rate+1.10%	SIFMA	1,099,184
Fixed Payer	59,580,000	Series 2005	2016	67% 1M LIBOR	3.548%	(6,145,511)
Fixed Payer	35,342,000	Series 2006A	2021	67% 1M LIBOR	3.613%	(3,944,601)
TOTAL	234,247,000					(11,258,629)

As of December 31, 2010

Proposed Debt Profile:

Series	Par Outstanding	Structure	Credit Enhancement	Swaps	Maturity
2003	36,665,000	Fixed Rate	Radian		2019
2005	59,580,000	VRDBs	LOC (JPM)	Fixed Payer	2032
2011	76,165,000	Fixed Rate		Total Return Swap	2032
2006C	200,000,000	Fixed Rate			2036
2007A	55,000,000	Fixed Rate			2037
Capital Leases	19,270,174	Fixed Rate			Various
Notes Payable	5,944,842	Fixed Rate			Various
Line of Credit *	7,000,000				2011
Series 2010 BQ	30,000,000	Index Floating Rate			2026
	489,625,016				

After Issuance
* Paid $7M in January 2011

Capital Improvement Plans

Overview of 2011 Capital Budget. The 2011 capital budget is approximately $44.0 million. Management expects that $10.0 million will be spent on strategic items with the majority being spent on the purchase of the Southwest Virginia Cancer Center building and land. Before any individual project is commenced or significant capital costs are incurred, the project is evaluated by management to determine financial feasibility and is submitted for approval to the Board. Management expects that the sources of funding for the capital projects approved will be cash from operations and philanthropic donations. Management closely monitors the progress of each project, including oversight of the schedule and the budget, and regularly reports such progress to the Board.

CORPORATE GOVERNANCE

Wellmont Board of Directors

Wellmont is governed by the Board, which is composed of community members. The role of the Board is to establish policy, promote performance improvement and provide for necessary resources and organizational management and planning.

Each trustee is elected for a four-year term and may serve a maximum of two terms, which then must be followed by one year off the Board before being elected to serve again. The bylaws of Wellmont require that there be at least 13 and not more than 15 voting trustees, four of whom must be physicians. There are seven at large members, one member as designated by the Lonesome Pine Advisory Board, one member designated by the Hawkins County Advisory Board. In addition there are two ex-officio members by virtue of their positions of chairs of the Bristol and Holston Valley Advisory Boards. The chief executive officer of Wellmont serves on the Board as an *ex-officio* non-voting member.

The Directors serve on a voluntary basis and receive no compensation for their services. The names of the current Directors, their occupations and years of service are as follows:

Name/Title	Term Expires	Eligible for Another Term	Occupation
R. David Crockett Sr., chairman	06/30/2013	Yes - Through 6/30/2017	Consultant
T. Arthur Scott Jr., vice chairman	06/30/2014	Yes - Through 6/30/2018	Attorney
Julie Bennett, secretary	06/30/2013	Yes - Through 6/30/2017	Attorney
E. Wayne Kirk, treasurer/assistant secretary	06/30/2011	No	Certified Valuation Analyst and Certified Public Accountant
Robert Burgin	06/30/2013	Yes - Through 6/30/2017	Retired Hospital Administrator
Dr. Marvin Cameron	06/30/2012	ex-officio	Consultant
Denny DeNarvaez		by virtue of office	President and CEO
Dr. Pierre Istfan	06/30/2013	Yes - Through 6/30/2017	Cardiologist
Wayne Kennedy	06/30/2011	ex-officio	Retired Executive - Bristol Compressors
Ravan Krickbaum	06/30/2014	No	Retired - Superintendent of Rogersville City Schools
Roger Leonard	06/30/2013	Yes - Through 6/30/2017	Consultant
Roger K. Mowen Jr.	06/30/2012	Yes - Through 6/30/2016	Retired Executive Eastman Chemical Company
Dr. Thomas Pugh	06/30/2012	No	Radiologist
Glen "Skip" Skinner	06/30/2012	Yes - Through 6/30/2016	Administrator Wise County
Dr. Douglas Springer	06/30/2014	Yes - Through 6/30/2018	Gastroenterologist
Dr. David Thompson	06/30/2011	No	Internal Medicine Physician
John Williams	06/30/2014	Yes - Through 6/30/2018	CEO, Regional Eye Center

The Board delegates certain of its functions to several committees. Currently, the bylaws provide for five standing committees: Audit and Compliance; Governance; Human Resources; Finance and Investment; and Quality/Safety/Service. In addition to the five standing committees, the Board may appoint other committees from time to time. The committee responsible for oversight of Wellmont's financial operations is the Finance and Investment Committee. The Finance and Investment Committee is comprised of at least three trustees, and its purpose is to develop and monitor oversight of the operating and capital budgets and the investment portfolio of Wellmont. The Audit and Compliance Committee is responsible for oversight of Wellmont's financial reporting. Oversight responsibility of the Audit and Compliance Committee includes, but is not limited to: the integrity of financial statements, the financial reporting process, the systems of internal accounting and financial controls; the performance of a coordinated internal audit function; the performance of independent auditors; compliance with ethics policies; and compliance with legal and regulatory requirements.

Relationships with Board Members

Wellmont is permitted to enter into transactions from time to time with business organizations with which one or more of Wellmont's officers or Directors are affiliated. Pursuant to existing policy of the Board, such transactions or affiliations are permitted only after full disclosure of potential conflicts of interest to the Board and approval by a majority of the disinterested Directors. Interested Directors are not permitted to vote or to use personal influence on the matter and such Director is not counted in determining the quorum for a meeting when Board action is to be taken on the matter. The minutes of the meeting must reflect that a disclosure was made, the abstention from voting and the quorum satisfaction. There are currently no conflicts of interest with Directors relating to the Series 2011 Bonds.

Executive Management

Brief biographies of the executive management of Wellmont are set out below.

Margaret "Denny" DeNarvaez is president and CEO of Wellmont Health System. An accomplished executive with nearly 30 years of healthcare experience, DeNarvaez previously served as CEO of St. John's Mercy Health Care, which includes hospitals in both St. Louis and Washington, Mo. DeNarvaez also provided leadership for Mercy's extensive operations in Missouri and Oklahoma, encompassing more than 2,200 licensed beds, nearly 15,000 employees and nearly 3,000 physicians. During her five-year tenure with the Mercy system, DeNarvaez refocused the organization on its mission, vision and values, led a multimillion-dollar financial turnaround, established a dedicated heart hospital and developed a physician clinical council to leverage the experience and judgment of physicians in operations and planning. Under her leadership, St. John's Mercy was recognized as a "best place to work" by both the St. Louis Business Journal and Modern Healthcare magazine. DeNarvaez previously served as president of Abbott Northwestern Hospital in Minneapolis, part of Allina Hospitals and Clinics. Abbott Northwestern, the largest hospital in Minnesota's Twin Cities, is nationally recognized for clinical expertise in cardiac care through its renowned Minneapolis Heart Institute. She has also served as CEO and chief financial officer of Florida Medical Center in Fort Lauderdale, Fla. DeNarvaez is a graduate of Drake University in Fort Lauderdale, where she earned a bachelor's degree of business administration in accounting. She is a certified public accountant and holds leadership certifications from the University of Michigan Business School in Ann Arbor and the University of St. Thomas in St. Paul, Minn. She was the 2009 recipient of the Visionary Leadership Award from the Missouri Hospital Association and in 2007 was named one of the Top 25 most influential businesswomen by the St. Louis Business Journal.

Elizabeth "Beth" Ward is executive vice president and chief financial officer of Wellmont Health System. She was appointed to this role in 2010. Ms. Ward was previously employed as CFO and treasurer of Moses Cone Health System in Greensboro, N.C., a position she had held since 2001. She joined Moses Cone in 1996 as the first corporate controller and previously worked in leadership roles at the University of North Carolina at Chapel Hill's Division of Health Affairs and the University of North Carolina Hospitals. Ms. Ward is a graduate of Radford University in Virginia, where she received a bachelor's degree in business finance and insurance. She earned a master's degree in business administration from the University of North Carolina at Greensboro. She is a member of the Health Management Academy and the American Institute of Certified Public Accountants, as well as an advanced member of the Healthcare Financial Management Association. She is a certified public accountant in North Carolina and Tennessee and holds a leadership certification from the University of Michigan Business School in Ann Arber. She was named Business Woman of the Year by the Triad Business Journal in 2007 and CFO of the Year for Extra Large Organizations by the Triad Business Journal in August, 2009.

Tracey Moffatt is chief operating officer for Wellmont Health System. Moffatt, who has more than 25 years' experience as a clinical and operations leader, joined Wellmont in January, 2011. As COO, Moffatt provides strategic leadership across the health system in areas of clinical service delivery, performance and quality management and decision support. She previously was senior vice president of consulting for Navvis and Company, a national healthcare consulting firm. Previously, Moffatt was employed for nearly two decades by the Sisters of Mercy Health System in St. Louis. She held positions of increasing responsibility during her tenure there, culminating in her service as executive vice president of clinical performance/chief nurse executive for St. John's Mercy Health Care. Moffatt received her bachelor's degree in nursing from Louisiana State University Medical Center in New Orleans. She earned a master's degree in healthcare administration from Trinity University in San Antonio. She is a member of Sigma Theta Tau and in 2009 received the Missouri Hospital Association's Distinguished Quality Professional Award.

Patrick Kane, an Emmy-nominated producer with nearly 25 years' experience in advertising, marketing and communications, is senior vice president of marketing communications for Wellmont Health System. Before joining Wellmont in 2005, Mr. Kane served as director of marketing communications for Conemaugh Health System in Johnstown, Pa. Prior to joining Conemaugh in 1997; he served as vice president and treasurer of Kane and Company Advertising Inc. in Johnstown. Mr. Kane is a graduate of Saint Joseph's College in Rensselaer, Ind., where he received a bachelor's degree in communications and theater arts, and King College in Bristol, Tenn., where he earned a master's degree in business administration.

Hamlin Wilson, senior vice president of human resources, joined the Wellmont Health System executive leadership staff in 2003. He has 22 years experience in health care, directing human resources functions for healthcare organizations in Tennessee and Mississippi. Mr. Wilson received his bachelor's degree at Southern Illinois University in Carbondale, Ill., and earned his master's degree at the University of Southern Mississippi in Hattiesburg, Miss. He holds advanced certification as a senior professional in human resources from the Society for Human Resource Management. He is a past president of the Tennessee Healthcare Human Resources Association and was honored by the American Society of Healthcare Human Resources Association when he received the Paul Guy Mentorship Award in 2003.

John Howard, an accomplished healthcare executive who holds doctorate and law degrees, serves as Wellmont Health System's general counsel and will help guide the organization's medical practice operations as of April 1, 2011. Mr. Howard worked for St. John's Mercy Health Care in St. Louis from 2001 to 2011. Most recently, he served as executive vice president and chief development officer. He was previously senior vice president, general counsel and assistant secretary. He also served as director of corporate compliance and privacy officer. Mr. Howard received a Bachelor of Arts degree in liberal studies from Concordia Lutheran College in Austin, Texas; a master's degree in English and philosophy from the University of Texas at Austin; a doctorate degree in English from St. Louis University; and a law degree from St. Louis University.

Todd Norris is executive director of the Wellmont Foundation and Wellmont Health System's senior vice president of institutional advancement. Mr. Norris is a graduate of East Tennessee State University, where he received his bachelor's and master's degrees. He has completed certificate programs through the Institute for Charitable Giving and Wharton's Institute for Higher Education Research. He is a member of the Council for Advancement and Support of Education, the Institute for Charitable Giving and the Association for Healthcare Philanthropy.

Virginia Frank is president of Holston Valley Medical Center. Ms. Frank previously served as administrator of the Heart and Vascular Hospital, a 96-bed facility that is part of St. John's Mercy Medical Center in St. Louis. She also served as vice president of operations for St. John's Mercy Medical Center. She previously worked as vice president of operations for Abbott Northwestern Hospital in Minneapolis and as chief information officer for Florida Medical Center Hospital in Fort Lauderdale, Fla. She earned a bachelor's degree in business administration from Florida Atlantic University in Boca Raton, Fla. She has also participated in the Global Leadership Development Program of the University of Michigan Business School.

Bart Hove, president of Bristol Regional Medical Center, is a graduate of Georgia Institute of Technology in Atlanta and the University of Alabama in Birmingham, where he received a master's degree in hospital administration. Before joining Bristol Regional in 2000, Mr. Hove was previously employed as chief executive officer of Delta Regional Medical Center in Greenville, Miss., CEO and president of Good Samaritan Hospital in Lexington, Ky., CEO of Crestwood Hospital in Huntsville, Ala., and administrator of Beaches Hospital in Jacksonville, Fla. He is a member of the American College of Hospital Administrators and the American Hospital Association.

David Brash serves as president of Lonesome Pine Hospital and regional vice president of Wellmont Health System hospitals in Southwest Virginia. Mr. Brash earned his bachelor's degree in healthcare administration from West Virginia Institute of Technology and received his master's degree in healthcare administration from West Virginia College in Charleston. Prior to joining Mountain View, Brash served as the chief executive officer at Harlan Appalachian Regional Hospital in Kentucky, Russell County Medical Center in Lebanon, Va., and Plateau Medical Center in Oak Hill, W.Va. He has achieved fellow status with the American College of Healthcare Executives and is a member of the Virginia Hospital and Healthcare Association.

Fred Pelle, president of Hawkins County Memorial Hospital since 2005 and president of Hancock County Hospital since 2008, began his healthcare career in 1982 and has served in executive positions at hospitals in Alabama, Kentucky, Georgia and Virginia. Most recently, he served as CEO of Buchanan General Hospital in Grundy, Va. He is a graduate of Athens State College, where he earned a bachelor's degree in accounting, and Troy State University, where he received a master's degree in business administration. He is a fellow of the American College of Healthcare Executives and an advanced member of the Healthcare Financial Management Association.

Daniel Wolcott is president of Takoma Regional Hospital. Mr. Wolcott previously served as vice president of Florida Hospital Ormond Memorial and as administrator of Florida Hospital Oceanside, 205-bed and 119-bed hospitals, respectively, in Ormond Beach, Fla. He also previously served as director of patient financial services at Florida Hospital Ormond Memorial, and held the same title at Emory-Adventist Hospital in Smyrna, Ga. Mr. Wolcott received a master's degree in business administration with an emphasis in finance from Georgia State University. He earned a bachelor's degree in business administration/marketing from Southern Adventist University.

Tim Attebery is Senior Vice President of Cardiology Services for Wellmont Health System. Mr. Attebery has 26 years of healthcare consulting and senior management experience focused on cardiovascular services. From 1992 until 2010, he served as CEO at three different large cardiovascular group practices. Mr. Attebery managed the integration of Cardiovascular Associates and Wellmont Health System in 2010. He started CVI3, a national cardiovascular services consulting and training company in 2004 and sold that company in 2008. Mr. Attebery served on the Executive Committee and as President of the Cardiology Leadership Alliance, a national network of premier cardiology groups now known as MedAxiom. He organized the founding of the Society of Cardiovascular CT, which currently has over 5,000 international members and is recognized by the American College of Cardiology and the American Heart Association as the definitive, scientific organization for all cardiac CT matters.

MEDICAL STAFF

General. As of March 31, 2011, the combined medical staff of the Wellmont Health System consisted of 1,044 physicians with 932 or 89 percent being board certified. The average age of the medical staff was approximately 50 years.

	Active			Associate			Consulting			Courtesy			Affiliate			TOTAL		
	Avg Age	Bd Cert	Total	Avg Age	Bd Cert	Total	Avg Age	Bd Cert	Total	Avg Age	Bd Cert	Total	Avg Age	Bd Cert	Total	Avg Age	Bd Cert	Total
Bristol Regional Medical Center	51	169	190	38	26	32	50	30	31	52	47	51	51	42	49	50	314	353
Holston Valley Medical Center	50	243	246	42	60	60	49	56	56	49	40	41	54	40	41	49	439	444
Mountain View Regional Medical Center	52	15	31							51	40	53				52	55	84
Lee Regional Medical Center	49	8	15				58	1	1	53	25	32				52	34	48
Lonesome Pine Hospital	56	14	21				49	40	41	51	50	63				51	104	125
Hawkins County Memorial Hospital/Hancock	47	21	24	46	6	6	51	21	21	50	52	64				49	100	115
TOTAL (Excludes Duplicates)	51	423	475	41	81	90	49	121	123	51	226	267	53	81	89	50	932	1,044

Discharges by Specialty. The following table lists Wellmont's discharges for fiscal years 2009 and 2010 by Specialty.

	FY 2009 Discharges	FY 2010 Discharges
Medical Services		
Cardiology	1,477	1,104
Dermatology	1	-
Endocrinology	2	2
General Medicine	12,899	11,583
Gastroenterology	145	109
Neurology	114	93
Nephrology	735	592
Oncology/Hematology	232	183
Pulmonary	392	307
Rheumatology	-	1
Subtotal	15,997	13,974
Surgical Services:		
Cardiovascular	847	877
General Surgery	3,295	2,808
Gynecology	186	212
Neurosurgery	892	854
Ophthalmology	-	1
Orthopedics	2,150	2,240
Otolaryngology	75	67
Plastic/Reconstructive	17	38
Urology	171	138
Thoracic	107	96
Trauma	601	649
Vascular	23	23
Subtotal	8,364	8,003
Hospitalist's Serviees	14,525	15,836
Women's & Pediatrics Services	3,657	3,556
Psychiatric Service	15	11
Totals	42,558	41,380

OTHER INFORMATION

Employees

Wellmont employs over 6,369 persons or 5,278 full time equivalents. Of these 113 are physicians. There are 389 part time employees or 251 full time equivalents. None of Wellmont's employees are represented by a labor union, nor is management aware of any union-organizing activities among its employees. Employee relations are considered to be excellent.

Insurance Coverage and Litigation

Wellmont maintains a self-insurance program that includes general and professional liability coverage for its entire operations. The insurance provides coverage in amounts consistent with those normally maintained by similar health care facilities.

Wellmont maintains a risk management program to avert and mitigate potential losses through early reporting and intervention. Claims are managed cooperatively between Wellmont's risk manager and Wellmont's primary insurance carrier.

Currently, there are no known claims against Wellmont with the potential of exceeding the limits of coverage available under the insurance plan.

Wellmont is involved in various liability disputes, governmental and regulatory inspections, inquiries, investigations, proceedings and litigation matters that arise from time to time in the ordinary course of business. Wellmont is self-insured with respect to professional liability, medical, dental and workers compensation claims and comprehensive general liability risks, subject to certain limitations. Professional and comprehensive general healthcare liability risks in excess of $1 million per occurrence are reinsured with major independent insurance companies up to an aggregate liability of $50 million.

Philanthropy

The Foundation seeks charitable donations from individuals, corporations, foundations and other organizations on behalf of Wellmont. The Foundation has established programs in major gifts, planned giving, annual gifts, tribute and memorial gifts, and in-kind gifts.

Licenses, Accreditation and Approvals

The Health System's hospitals are licensed by the respective States in which they operate and are accredited by The Joint Commission. The Joint Commission's accreditation process seeks to help organizations identify and correct problems to improve the safety and quality of care and services provided. The process focuses on systems critical to the safety and quality of care, treatment and services.

The Health System's laboratories hold medical test site licenses issued by the respective States in which they operate and are accredited by the College of American Pathologists.

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APPENDIX B.

FINANCIAL STATEMENTS OF THE CORPORATION

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WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

WELLMONT HEALTH SYSTEM AND AFFILIATES

Table of Contents

KPMG LLP
Suite 1000
401 Commerce Street
Nashville, TN 37219-2422

Independent Auditors' Report

The Board of Directors
Wellmont Health System:

We have audited the accompanying consolidated balance sheets of Wellmont Health System and affiliates (Wellmont) 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 Wellmont'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 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 Wellmont's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wellmont Health System and affiliates as of June 30, 2010 and 2009, and the consolidated results of their operations and changes in net assets, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 28, 2010

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Balance Sheets

June 30, 2010 and 2009

(Dollars in thousands)

Assets		**2010**	**2009**
Current assets:			
Cash and cash equivalents	$	35,711	60,889
Assets limited as to use, required for current liabilities		1,815	2,201
Patient accounts receivable, less allowance for uncollectible accounts of approximately $25,113 and $27,890 in 2010 and 2009, respectively		94,057	98,071
Other receivables		10,919	11,173
Inventories		18,294	17,169
Prepaid expenses and other current assets		7,003	6,040
Total current assets		167,799	195,543
Assets limited as to use, net of current portion		301,807	245,600
Land, buildings, and equipment, net		450,205	442,610
Other assets:			
Long-term investments		32,391	31,974
Investments in affiliates		32,019	31,976
Deferred debt expense, net		4,644	4,824
Goodwill, net		9,501	9,509
Other		730	798
		79,285	79,081
Total assets	$	999,096	962,834
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	11,958	13,197
Lines of credit/short-term note payable		14,000	15,811
Accounts payable and accrued expenses		74,679	77,139
Estimated third-party payor settlements		11,672	12,441
Current portion of other long-term liabilities		7,251	6,352
Total current liabilities		119,560	124,940
Long-term debt, less current portion		467,833	474,608
Other long-term liabilities, less current portion		47,364	38,422
Total liabilities		634,757	637,970
Net assets:			
Unrestricted		358,620	320,030
Temporarily restricted		4,551	3,589
Permanently restricted		1,168	1,245
Total net assets		364,339	324,864
Commitments and contingencies			
Total liabilities and net assets	$	999,096	962,834

See accompanying notes to consolidated financial statements.

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2010 and 2009

(Dollars in thousands)

		2010	2009
Revenue:			
Net patient service revenue	$	692,920	680,056
Other revenues		31,472	27,842
Total revenue		724,392	707,898
Expenses:			
Salaries and benefits		310,667	323,801
Medical supplies and drugs		150,143	141,044
Purchased services		74,922	81,031
Interest		20,110	16,013
Provision for bad debts		35,293	33,402
Depreciation and amortization		43,711	42,957
Other		66,734	62,604
Total expenses		701,580	700,852
Income from operations		22,812	7,046
Nonoperating gains (losses):			
Investment income		1,012	4,181
Derivative valuation adjustments		(2,693)	(5,747)
Other, net		(1,870)	(625)
Nonoperating losses, net		(3,551)	(2,191)
Revenue and gains in excess of expenses and losses before discontinued operations		19,261	4,855
Discontinued operations		(1,109)	(4,455)
Revenue and gains in excess of expenses and losses		18,152	400
Other changes in unrestricted net assets:			
Change in net unrealized gains (losses) on investments		22,312	(60,663)
Net assets released from restrictions for additions to land, buildings, and equipment		1,555	2,758
Change in the funded status of benefit plans and other		(3,429)	(13,568)
Increase (decrease) in unrestricted net assets		38,590	(71,073)
Changes in temporarily restricted net assets:			
Contributions		2,934	1,944
Net assets released from temporary restrictions		(1,972)	(3,154)
Increase (decrease) in temporarily restricted net assets		962	(1,210)
Changes in permanently restricted net assets – investment (loss) income		(77)	645
Change in net assets		39,475	(71,638)
Net assets, beginning of year		324,864	396,502
Net assets, end of year	$	364,339	324,864

See accompanying notes to consolidated financial statements.

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2010 and 2009

(Dollars in thousands)

		2010	2009
Cash flows from operating activities:			
Change in net assets	$	39,475	(71,638)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		43,755	43,393
Loss on disposal of land, buildings, and equipment		1,282	659
Equity in gain of affiliated organizations		(6,773)	(5,549)
Amortization of deferred financing costs		180	238
Net realized and unrealized (gains) losses on investments, other than trading		(17,994)	66,199
Provision for bad debts		35,950	33,821
Change in fair value of derivative instruments		2,693	5,747
Changes in assets and liabilities:			
Patient accounts receivable		(31,936)	(22,378)
Other current assets		(2,088)	(385)
Other assets		322	3,735
Accounts payable and accrued expenses		2,722	(5,796)
Estimated third-party payor settlements		(769)	10,355
Other current liabilities		899	1,437
Other liabilities		7,933	11,101
Net cash provided by operating activities		75,651	70,939
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		88,887	67,580
Purchase of investments		(127,131)	(25,207)
Purchase of land, buildings, and equipment		(55,684)	(86,623)
Proceeds from the sale of buildings and equipment		4,357	31,251
Cash paid for acquisitions		(2,421)	—
Investment in affiliated organizations		—	(4,453)
Distributions from affiliated organizations		6,730	7,181
Distributions to affiliated organizations		(1,684)	(924)
Net cash used in investing activities		(86,946)	(11,195)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		14,000	484
Payments on long-term debt		(12,083)	(11,005)
Payments on line of credit		(15,800)	(2,121)
Net cash used in financing activities		(13,883)	(12,642)
Net (decrease) increase in cash and cash equivalents		(25,178)	47,102
Cash and cash equivalents, beginning of year		60,889	13,787
Cash and cash equivalents, end of year	$	35,711	60,889

Supplemental disclosures of noncash items:

Wellmont entered into capital lease obligations for buildings and equipment in the amount of $1,290 and $18,050 in 2010 and 2009, respectively.

Additions to property and equipment financed through current liabilities of $5,182 and $5,977 in 2010 and 2009, respectively.

See accompanying notes to consolidated financial statements.

(1) Operations and Basis of Presentation

Wellmont Health System (Wellmont) was formed to assume operations of Bristol Regional Medical Center (BRMC) and Holston Valley Health Care, Inc. (HVHC), including Holston Valley Medical Center, Inc. (HVMC), and to act as sole corporate member of its consolidated foundations. Effective July 1, 1996, under terms of an agreement and plan of consolidation and merger, BRMC and HVHC, including HVMC, were merged and consolidated into Wellmont. Effective January 1, 1997, Lonesome Pine Hospital (LPH), a Virginia corporation, was merged into Wellmont under terms of a plan of merger and merger agreement. Effective July 1, 2000, Hawkins County Memorial Hospital (HCMH) transferred its operations and operating assets to Wellmont Hawkins County Memorial Hospital (WHCMH), a tax-exempt organization that is wholly owned and controlled by Wellmont. Hancock County Hospital (HCH), a critical access hospital, was opened in March 2005 to help provide for the immediate healthcare needs of the residents of Sneedville and the surrounding counties. As of July 16, 2007, Wellmont acquired Jenkins Community Hospital (Jenkins) in Kentucky. As of August 1, 2007, Wellmont acquired two hospitals in Virginia, Lee Regional Medical Center in Pennington Gap and Mountain View Regional Medical Center in Norton. On May 30, 2008, Wellmont acquired the Holston Valley Cath Lab, an outpatient lab. On May 1, 2010, Wellmont acquired Cardiovascular Associates.

As of April 30, 2009, Wellmont closed Jenkins, sold the majority of the facility's property and equipment to Appalachian Regional Healthcare, Inc for $1,000 and recorded a loss on sale of approximately $256. The consolidated financial statements for the years ended June 30, 2010 and 2009 present Jenkins as a discontinued operation. The operating losses of $474 and $3,659 for the years ended June 30, 2010 and 2009, respectively, and the impairment are included in the classification of discontinued operations.

As of June 30, 2010, it was announced that Wellmont will sell the majority of Medical Mall Pharmacy's assets to a national pharmacy company for $1,300 plus inventory value. The consolidated financial statements for the years ended June 30, 2010 and 2009 present Medical Mall Pharmacy as a discontinued operation. The operating losses of $635 and $540 for the years ended June 30, 2010 and 2009, respectively, are included in the classification of discontinued operations. The sale was completed on September 23, 2010.

All acute care operations remain separately licensed and are treated as operating divisions within Wellmont. Wellmont's operations consist primarily of the delivery of healthcare services in northeast Tennessee and southwest Virginia.

The consolidated financial statements include the acute care operations of the above entities along with:

- Wellmont Foundation (the Foundation), which was created from the merger of Bristol Regional Medical Center Foundation and Holston Valley Health Care Foundation, Inc. The Foundation conducts fund-raising activities for the benefit of Wellmont.
- Wellmont, Inc., a wholly owned taxable subsidiary of Wellmont, formed as the holding company of various other taxable subsidiaries that provide medical collection and medical laundry services, operate a pharmacy and physician practices, provide other healthcare-related services, and invest in affiliates and other activities.

- The Alzheimer's Center of East Tennessee was merged into Wellmont and changed its name to Wellmont Madison House effective September 1, 1997. Wellmont is the sole corporate member and the consolidated financial statements include the operations of this entity.

All significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

(2) Significant Accounting Policies

A summary of significant accounting policies follows:

(a) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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. Significant estimates include: allowances for contractual adjustments and bad debts; third-party payor settlements; valuation of investments, land, buildings, equipment, and goodwill; and self-insurance and other liabilities. Actual results could differ from these estimates.

(b) Cash and Cash Equivalents

Wellmont considers all highly liquid investments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board of director's designation or other arrangements under trust agreements, to be cash equivalents.

(c) Investments

Marketable equity securities and debt securities are recorded at fair value and classified as other than trading. Fair value is determined primarily using quoted prices (unadjusted) in active markets for identical assets or liabilities that Wellmont has the ability to access at the measurement date. However, Wellmont also uses observable and unobservable inputs for investments without quoted market prices to determine the fair value of certain investments at the measurement date. Investments in limited partnerships are recorded at fair value as determined by the partnership using net asset value. Wellmont elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent),* to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. Investments in affiliates in which Wellmont has significant influence but does not control are reported on the equity method of accounting, which represents Wellmont's equity in the underlying net book value. Long-term investments include those investments that have not been designated by the board of directors for specific purposes and are also not intended to be used for the liquidation of current liabilities. Investment income is recognized when earned.

Realized gains and losses are determined on the specific-identification method and included in investment income with interest and dividends. Investment income is reported net of related investment fees. Unrealized gains and losses are included in other changes in unrestricted net assets except for losses determined to be other than temporary, which are considered realized losses and included in investment income.

On July 1, 2008, Wellmont adopted new guidance issued by the Financial Accounting Standards Board (FASB), which defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements now codified into Accounting Standards Codification (ASC) 850. ASC 850 statement does not require any new fair value measures and did not have a material impact on Wellmont's consolidated financial statements for the year ended June 30, 2009, however, expanded fair value disclosures have been provided in note 19.

(d) Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under bond indenture and self-insurance agreements, as well as designated assets set aside by the board of directors for future capital improvements, over which the board of directors retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of Wellmont have been reclassified to current assets in the accompanying consolidated balance sheets.

(e) Inventories

Inventories are stated at the lower of cost or market value and are valued principally by the first-in, first-out, and average-cost methods.

(f) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased, or fair value at date of donation. Depreciation is computed using the straight-line method based on the estimated useful life of the asset, ranging from 3 to 40 years. Buildings and equipment held under capital leases are recorded at net present value of future lease payments and are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Costs of maintenance and repairs are expensed as incurred. Upon sale or retirement of land, buildings, or equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss, if any, is included in other revenues on the consolidated statements of operations and changes in net assets. 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.

Wellmont evaluates long-lived assets for impairment on annual basis. Long-lived assets are considered to be impaired whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable from future cash flows. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. When such assets are considered to be impaired, the impairment loss recognized is measured by the amount by which the carrying value of the asset exceeds the fair value of the asset.

(Dollars in thousands)

(g) Goodwill

Goodwill represents the difference between the cost of net assets acquired and estimated fair value at purchase date, and is being amortized using the straight-line method over periods of 5 to 15 years. For goodwill acquired by its taxable entities, the FASB has implemented a nonamortization approach to goodwill. However, the effective date for not-for-profit entities is not effective until fiscal year 2011 for Wellmont and, as such, Wellmont continues to amortize the goodwill associated with its tax-exempt entities. Wellmont assesses the recoverability and the amortization period of goodwill for not-for-profit entities by determining whether the amount can be recovered through undiscounted cash flows of the business acquired, excluding interest and amortization, over the remaining amortization period. If impairment is indicated by this analysis, measurement of the impairment recognized is based on the difference between the fair value and the carrying amount of the asset. Management considers external factors relating to each acquired business, including local market developments, regional and national trends, regulatory developments, and other pertinent factors in making its assessment. Goodwill for Wellmont's for-profit/taxable entities is reviewed for impairment at least annually in accordance with the provisions of FASB ASC 350, *Intangibles – Goodwill and Other* (Statement No. 142, *Goodwill and Other Intangible Assets*). The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. A summary of goodwill and related amortization for the years ended June 30 follows:

		2009	Additions	Decreases	2010
Goodwill	$	12,604	—	—	12,604
Amortization		(3,095)	(8)	—	(3,103)
	$	9,509	(8)	—	9,501

(Dollars in thousands)

	2008	Additions	Decreases	2009
Goodwill	$ 12,771	—	(167)	12,604
Amortization	(3,130)	(30)	65	(3,095)
	$ 9,641	(30)	(102)	9,509

(h) Deferred Debt Expense

Deferred debt expense is amortized over the life of the related bond issues using the effective-interest method.

(i) Derivative Financial Instruments

As further described in note 12, Wellmont is a party to interest rate swap and other derivative agreements. These financial instruments are not designated as hedges and are presented at estimated fair market value in the accompanying consolidated balance sheets. These fair values are based on the estimated amount Wellmont would receive, or be required to pay, to enter into equivalent agreements with a third party at the valuation date. Due to the nature of these financial instruments, such estimates are subject to significant change in the near term. Wellmont recognizes changes in the fair values of derivatives as nonoperating gains or losses in the consolidated statements of operations and changes in net assets. The cash settlements resulting from these interest rate swaps are reported as interest expense in the consolidated statements of operations and changes in net assets.

(j) Asset Retirement Obligations

Asset retirement obligations (AROs) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value, and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Wellmont records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Wellmont derecognizes ARO liabilities when the related obligations are settled.

(k) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Wellmont has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Wellmont in perpetuity. Generally, donors of permanently restricted assets permit use of all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets relate primarily to amounts held by the Foundation and include amounts restricted for future capital expenditures and for operations of such areas as children's healthcare services, hospice, and cancer research.

Net assets are released from restrictions by Wellmont incurring expenses that satisfy the restricted purposes. Such net assets released during 2010 and 2009 primarily included amounts related to the purchase of buildings and equipment for pediatrics, cancer, and other healthcare operations.

(l) Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts expected to be collected. Net patient service revenue includes amounts estimated by management to be reimbursable by patients and various third-party payors under provisions of reimbursement formulas in effect, including retroactive adjustments under reimbursement agreements. Estimated retroactive adjustments are accrued in the period related services are rendered and adjusted in future periods as final and other settlements are determined. Wellmont provides care to patients who meet criteria under its charity care policy without charge or at amounts less than its established rates. Because Wellmont does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenue.

Patient accounts receivable are reported net of both an allowance for uncollectible accounts and an allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare, Medicaid, and other third-party payment programs. Wellmont's policy does not require collateral or other security for patient accounts receivable. Wellmont routinely obtains assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans, or policies.

(m) Revenue and Gains in Excess of Expenses and Losses

The consolidated statements of operations and changes in net assets include revenue and gains in excess of expenses and losses. Changes in unrestricted net assets that are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include changes in net unrealized gains (losses) on investments other-than-trading securities, changes in the funded status of Wellmont's defined benefit plans, contributions of long-lived assets, including assets acquired using contributions that, by donor restriction, were to be used for the purpose of acquiring such assets, and cumulative effects of changes in accounting principles.

For purposes of financial statement display, those activities directly associated with Wellmont's mission of providing healthcare services are considered to be operating activities. Nonoperating activities primarily include investment and related activities. Other operating revenues primarily include cafeteria, rental, and income from affiliates.

(n) Contributed Resources

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted contributions, and are excluded from revenue and gains in excess of expenses and losses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit

(Continued)

donor stipulations about how long those long-lived assets must be maintained, expiration of donor restrictions is reported when the donated or acquired long-lived assets are placed in service.

Unconditional promises to give cash or other assets are reported at fair value at the date the promise is received. Gifts are reported as either a temporarily or permanently restricted contribution if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions. Unrestricted contributions are included in other revenues.

(o) Federal Income Taxes

The Wellmont entities are primarily classified as organizations exempt from federal income taxes under Section 501(a) as entities described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included for these entities in the consolidated financial statements. The operations of Wellmont, Inc. and its subsidiaries are subject to state and federal income taxes, which are accounted for in accordance with ASC 740, *Income Taxes*; however, such amounts are not material.

On July 1, 2007, Wellmont adopted new guidance issued by on the accounting for uncertainty in income tax positions now codified into ASC 740. It also provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. There was no impact on Wellmont's consolidated financial statements as a result of the adoption of the new guidance.

(p) New Accounting Pronouncements

Effective July 1, 2008, Wellmont adopted new guidance issued by FASB, which provides guidance on the net asset classification of donor-restricted endowment funds for a tax-exempt organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) now codified into ASC 958, *Not-for-Profit Entities*. Effective July 1, 2007, the State of Tennessee adopted legislation that incorporates the provisions outlined in UPMIFA. Wellmont's endowments consist solely of donor-restricted endowment funds. Wellmont's endowments consist of four individual funds established for a variety of purposes.

Wellmont has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Wellmont classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are approved for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Wellmont considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the organization and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the organization; and (7) the investment policies of the organization.

On June 30, 2009, Wellmont adopted guidance issued by the FASB for subsequent events, now codified into ASC 855, *Subsequent Events*. ASC 855 defines the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure, the circumstances under which an organization shall recognize events occurring after the balance sheet date and the disclosures that an organization shall make about those events or transactions. ASC 855 defines two types of subsequent events. The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent to the process of preparing financial statements (i.e., recognized subsequent events). The second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the date (i.e., nonrecognized event).

Management evaluated all events and transactions that occurred through October 28, 2010. Other than described in note 11, Wellmont did not have any material subsequent events during this period.

On July 1, 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles* (Statement 168). Statement 168 is the single source of authoritative nongovernmental GAAP, superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force, and related accounting literature. Statement 168 reorganizes the thousands of pages of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. Statement 168 is effective for interim and annual periods ending after September 15, 2009. The adoption of Statement 168 had no significant effect on the Wellmont's consolidated financial statements.

(q) Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 consolidated financial statement presentation.

(Dollars in thousands)

(3) 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 consolidated statements of operations and changes in net assets is as follows for the years ended June 30:

		2010	2009
Gross patient service charges	$	2,158,847	2,178,018
Less:			
Contractual adjustments and other discounts		(1,411,435)	(1,440,519)
Charity care		(54,492)	(57,443)
		(1,465,927)	(1,497,962)
Net patient service revenue	$	692,920	680,056

(4) Third-Party Reimbursement Arrangements

Wellmont renders services to patients under contractual arrangements with the Medicare and Medicaid programs. The Medicaid program in Tennessee was replaced with a managed care program known as TennCare, which was designed to cover previous Medicaid eligible enrollees. Amounts earned under these contractual arrangements are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. Management believes that adequate provision has been made for any adjustments that may result from such reviews. Participation in these programs subjects Wellmont to significant rules and regulations; failure to adhere to such could result in fines, penalties, or expulsion from the programs.

Wellmont contracts with various managed care organizations under the TennCare program. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates, including diagnostic-related group assignments, fee schedules, and per diem amounts. Reimbursement under the Virginia Medicaid program is also based upon prospectively determined amounts.

The Medicare program pays for the costs of inpatient services on a prospective basis. Payments are based upon diagnostic-related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. Wellmont receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid-eligible and other low income patients. Outpatient services are also reimbursed primarily on a prospectively determined basis.

(Dollars in thousands)

Net patient service revenue in 2010 and 2009 related to Medicare, TennCare, and Virginia Medicaid and net patient accounts receivable at June 30, 2010 and 2009 from Medicare, TennCare, and Virginia Medicaid were as follows:

		2010	2009
Net patient service revenue:			
Medicare	$	277,372	272,259
TennCare		22,918	22,509
Virginia Medicaid		23,536	19,036
Net patient accounts receivable:			
Medicare	$	41,125	39,852
TennCare		2,206	4,072
Virginia Medicaid		3,739	3,172

Wellmont has filed cost reports with Medicare and Virginia Medicaid. The cost reports are subject to final settlement after audits by the fiscal intermediary. The Medicare and Virginia Medicaid cost reports have been audited by the intermediary through June 30, 2006.

Wellmont has also entered into reimbursement agreements with certain commercial insurance companies, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, per diem rates, and discounts from established charges.

Net patient service revenue is reported at the net amounts billed to patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated retroactive adjustments are accrued in the period the related services are rendered and adjusted in future periods as changes in estimated provisions and final settlements are determined. Net patient service revenue increased (decreased) approximately $863 and $(2,600) in 2010 and 2009, respectively, due to final settlements and revised estimates in excess of amounts previously recorded, removal of allowances previously estimated that are no longer necessary as a result of final settlements, and years that are not longer subject to audits, reviews, and investigations.

Estimated settlements recorded at June 30, 2010 could differ materially from actual settlements based on the results of third-party audits.

(5) Charity Care and Community Services

Wellmont accepts all patients within its primary service area regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies that consider, among other factors, generally recognized poverty income levels.

Wellmont maintains records to identify and monitor the level of charity care it provides. Charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services, and the equivalent percentage of charity care patients to all patients serviced were $54,492, $15,567, and

(Dollars in thousands)

2.52%, respectively, for the year ended June 30, 2010 and $57,443, $16,203, and 2.63%, respectively, for the year ended June 30, 2009.

In addition to the charity care services described above, Wellmont provides a number of other services to benefit the indigent for which little or no payment is received. Medicare, Medicaid, and State indigent programs do not cover the full cost of those services. The shortfall between actual receipts from those programs and Wellmont's cost of providing care to those patients totaled $55,461 and $57,212 for the years ended June 30, 2010 and 2009, respectively.

Wellmont also provides services to the community at large for which it receives little or no payment. Health evaluations, screening programs, and specific services for the elderly and homebound are other services supplied. Wellmont also provides public health education, trains new health professionals, and conducts health research.

(6) Investment in Affiliates

Wellmont has investments with other healthcare providers, which include hospital, home care, regional laboratories, and other healthcare-related organizations. Wellmont records its share of equity in the operations of the respective organizations. Equity in net income of affiliates was approximately $6,773 and $5,549 for the years ended June 30, 2010 and 2009, respectively, and is included in other operating revenue in the consolidated financial statements. Wellmont made additional contributions of $0 and $4,453 during 2010 and 2009, respectively, to affiliates, which increased Wellmont's overall investment in affiliates. Wellmont received distributions of $6,730 and $7,181 during 2010 and 2009, respectively, which reduced Wellmont's overall investment in the affiliates.

The following table summarizes the unaudited aggregate financial information of Wellmont's investments in affiliates:

		2010	2009
Total assets	$	129,720	137,737
Total liabilities		13,943	39,913
Total net assets	$	115,777	97,824
Net revenues	$	166,815	178,253
Expenses		142,534	159,004
Revenues in excess of expenses	$	24,281	19,249

(Dollars in thousands)

Wellmont's equity investment in these affiliates and its ownership percentage as of June 30, 2010 and 2009 are as follows:

	Amount		Percentage	
	2010	**2009**	**2010**	**2009**
Takoma Regional Hospital	$ 12,645	12,302	60%	60%
Holston Valley Imaging Center (HVIC)	8,048	9,047	75	75
Advanced Home Care (AHC)	6,092	6,092	6	6
Spectrum Tennessee Network	3,850	3,462	20	20
Others	1,384	1,073	4% – 50%	4% – 50%
	$ 32,019	31,976		

Wellmont provided billing and management services to the affiliates. Income recognized by Wellmont for the services was $1,766 in 2010 and $1,501 in 2009 and is included in other revenues.

Included in other receivables are $124 and $135 as of June 30, 2010 and 2009, respectively, of amounts due to Wellmont from these entities.

Although Wellmont's ownership percentage in Takoma Regional Hospital and HVIC is greater than 50%, Wellmont does not consolidate these entities because Wellmont only has a 50% representation on each respective board and does not have control over these entities.

(Continued)

(Dollars in thousands)

(7) Investments

Long-term investments, including assets limited as to use, at June 30 are reported at fair value and consist of the following:

		2010	2009
Assets limited as to use by Board for capital improvements:			
Stock mutual funds	$	109,629	108,036
Bond mutual funds		71,698	5,910
Cash and money market funds		1,474	2,517
Real estate funds		7,468	5,419
Alternative investments (private equity, hedge funds, commingled funds, and real estate funds):			
Liquid		33,915	12,415
Illiquid		23,490	23,171
		247,674	157,468
Assets limited as to use under self-insurance agreements:			
Corporate bonds		6,867	7,464
Cash and money market funds		558	643
		7,425	8,107
Assets limited as to use under bond indenture agreements:			
Cash and money market funds		48,523	82,226
Less assets limited as to use that are required for current liabilities		1,815	2,201
Assets limited as to use, net of current portion	$	301,807	245,600
Long-term investments:			
Stock mutual funds	$	9,279	8,631
Bond mutual funds		7,599	3,648
Preferred equity investment and related options		11,512	11,512
Cash, money market funds, and certificates of deposit		287	5,202
Real estate funds		1,722	1,255
Alternative investments (private equity, hedge funds, commingled funds, and real estate funds):			
Liquid		1,992	1,726
Total long-term investments	$	32,391	31,974

Investments in certain alternative limited partnership investments contain agreements whereby Wellmont is committed to contribute approximately $12,112 as of June 30, 2010 of additional funds to the limited partnerships in the form of capital calls at the discretion of the general partner, of which $417 was paid subsequent to June 30, 2010.

(Dollars in thousands)

Wellmont has invested $10,000 in the preferred equity of a regional managed services organization and $1,512 on a right of first refusal related to any future sale of this organization. This equity has a guaranteed annual return of at least 6.5% of the outstanding preferred equity balance.

Wellmont's investments are concentrated in stock and bond mutual funds. In the event of a downward trend in the stock and bond markets, Wellmont's overall market value of net assets could be adversely affected by a material amount. Investments in alternative investments are generally illiquid investments whose value is determined by the general partner such as hedge funds, private equity, commingled funds, and real estate funds. Distributions are only at the discretion of a voting majority of the general partners.

Wellmont evaluates whether unrealized losses on investment securities indicate other-than-temporary impairment. Based on this evaluation, the Company recognized other-than-temporary impairment losses of $8,233 and $4,654 on investments as of June 30, 2010 and 2009, respectively. The unrealized losses on these mutual funds were primarily caused by the overall decline in the world's economy in 2009 and 2010. Other-than-temporary impairment losses are considered as realized losses and are reported within "investment income" in the consolidated statements of operations and changes in net assets.

Gross unrealized losses on investments for which other-than-temporary impairments have not been recognized and the fair values of those investments, aggregated by the length of time that individual investments have been in a continuous unrealized loss position, at June 30, 2010 and 2009, were as follows:

	June 30, 2010					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
Alternative investments	$ —	—	910	4,219	910	4,219
Stock mutual funds	2,184	29,658	24,817	83,713	27,001	113,371
	$ 2,184	29,658	25,727	87,932	27,911	117,590

	June 30, 2009					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
Bond mutual funds	$ 191	4,112	—	—	191	4,112
Alternative investments	5,525	16,227	4,144	7,120	9,669	23,347
Stock mutual funds	22,243	74,147	17,460	35,983	39,703	110,130
	$ 27,959	94,486	21,604	43,103	49,563	137,589

(Dollars in thousands)

Investment income is comprised of the following for the years ended June 30:

		2010	2009
Interest and dividends, net of amounts capitalized	$	5,330	9,717
Realized losses on investments, including $8,233 and $4,654 recognized losses related to other-than-temporary impairments in 2010 and 2009, respectively.		(4,318)	(5,536)
Investment income, net	$	1,012	4,181
Change in net unrealized gains (losses) on investments	$	22,312	(60,663)

(8) Land, Buildings, and Equipment

Land, buildings, and equipment at June 30 consist of the following:

		2010	2009
Land	$	41,210	44,149
Buildings and improvements		488,285	392,593
Equipment		327,896	303,805
Buildings and equipment under capital lease obligations		39,591	38,734
		896,982	779,281
Less accumulated depreciation		(459,935)	(418,399)
		437,047	360,882
Construction in progress		13,158	81,728
Land, buildings, and equipment	$	450,205	442,610

Depreciation expense for the years ended June 30, 2010 and 2009 was $43,755 and $43,393, respectively. Included in depreciation expense is amortization related to capitalized software and equipment under capital leases. Accumulated amortization for equipment under capitalized software and lease obligations was $13,266 and $9,109 as of June 30, 2010 and 2009, respectively.

(Continued)

(Dollars in thousands)

(9) Other Long-Term Liabilities

Other long-term liabilities at June 30 consist of the following:

		2010	2009
Workers' compensation liability	$	6,606	5,706
Professional and general liability		11,183	9,494
Postretirement benefit obligation		5,861	5,653
Asset retirement obligation		3,710	3,621
Deferred gain on sale of assets		1,382	2,136
Derivative liability		12,943	10,250
Pension benefit liability		10,018	6,709
Other		2,912	1,205
		54,615	44,774
Less current portion		(7,251)	(6,352)
Total other long-term liabilities	$	47,364	38,422

(10) Lines of Credit/Notes Payable

During 2008, Wellmont entered into three lines of credit for $15,000, $1,800, and $10,000. The $15,000 line of credit had a variable interest rate based upon LIBOR plus 1% and a termination date of August 2009; at June 30, 2009, $14,000 was outstanding on this line. During 2010, the $15,000 line of credit was paid in full with a $14,000 note payable, which was initiated with one bank to pay off the line of credit. The $14,000 note payable has a variable interest rate based upon LIBOR plus 2% and a termination date of December 2010. At June 30, 2010, $14,000 was outstanding on this note. During 2008, a $1,800 line of credit was initiated with one bank and was paid in full with the funds from the $10,000 line of credit from another bank, which had variable interest rate based upon LIBOR plus 0.95% and a termination date of August 31, 2009; at June 30, 2010 and 2009, $0 and $1,811, respectively, was outstanding on this line. The $10,000 line of credit was paid in full in 2010.

(Dollars in thousands)

(11) Debt

(a) Long-Term Debt

Long-term debt consists of the following at June 30:

		2010	2009
Hospital Revenue Bonds, Series 2007A	$	55,000	55,000
Hospital Revenue Refunding Bonds, Series 2006C		200,000	200,000
Hospital Revenue Refunding Bonds, Series 2006A and 2006B		93,405	95,205
Hospital Revenue Refunding Bonds, Series 2005		61,810	63,940
Hospital Revenue Bonds, Series 2003		36,666	40,145
Notes payable		6,429	4,399
Capital lease obligations		19,698	22,388
Other		358	71
		473,366	481,148
Unamortized premium		7,538	7,800
Unamortized discount		(1,113)	(1,143)
		479,791	487,805
Less current maturities		(11,958)	(13,197)
	$	467,833	474,608

(b) Series 2007 Bonds

On July 24, 2007, The Virginia Small Business Financing Authority issued, on behalf of Wellmont, $55,000 of Hospital Revenue Bonds, Series 2007A. The Series 2007A Bonds, with other methods of financing, were used to purchase the assets of Mountain View Regional Medical Center and Lee Regional Medical Center.

Principal on outstanding Series 2007A Bonds is payable through maturity or mandatory sinking fund redemption in annual amounts ranging from $360 to $2,460 commencing on September 1, 2017 through September 1, 2036, with a balloon payment of $29,245 due on September 1, 2037. The outstanding bonds accrue interest at rates ranging from 5.125% to 5.25%.

(c) Series 2006C

On October 26, 2006, The Health, Educational and Housing Facilities Board of the County of Sullivan Tennessee issued, on behalf of Wellmont, $200,000 of Hospital Revenue Bonds, Series 2006C. The Series 2006C Bonds were used to: finance the costs of acquisition of land for expansion, construction, expansion, equipping, and renovation of HVMC, including the construction of a new patient tower (collectively known as Project Platinum); finance the costs of the construction, expansion, equipping, and renovation of the emergency department at BRMC (the Bristol Emergency Department Project); and finance the costs of construction, expansion, renovation, and equipping of an operating room and related facilities at HCMH.

Principal on outstanding Series 2006C Bonds is payable through maturity or mandatory sinking fund redemption in annual amounts ranging from $1,605 to $25,330 commencing on September 1, 2017 through September 1, 2036. The outstanding bonds accrue interest at rates ranging from 5.00% to 5.25%.

(d) Series 2006 A and B

On June 23, 2006, The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee issued, on behalf of Wellmont, $98,475 of Hospital Revenue Refunding Bonds, Series 2006. This bond issuance consists of Series A tax-exempt and Series B taxable bonds of $76,595 and $21,880, respectively. The Series 2006 Bonds together with other available funds were used to advance refund all the previously issued Hospital Revenue Bonds, Series 1993, to reimburse Wellmont for payments made on other taxable borrowings and to pay certain expenses incurred in connection with the issuance of the Series 2006 Bonds. Upon this refunding, a trust was established to pay all future bond payments related to the Series 1993 Bonds. Wellmont was deemed to have paid the Series 1993 Bonds and these Bonds are no longer deemed to be outstanding for purposes of the Series 1993 Trust Indenture.

Principal on outstanding Series 2006A Bonds is payable through maturity or mandatory sinking fund redemption in annual amounts ranging from $875 to $6,400 commencing on September 1, 2013 through September 1, 2032; and the outstanding bonds accrue interest on a variable rate, which is reset monthly based upon the AAA-insured Municipal Market Data Index, plus 85 basis points. Principal on outstanding Series 2006B Bonds is payable through maturity in annual amounts ranging from $1,600 to $2,930 commencing on September 1, 2007 through September 1, 2016, and the outstanding bonds accrue interest at a fixed rate of 6.95%.

Outstanding Series 2006A Bonds are subject to redemption prior to maturity at the option of The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee upon direction by Wellmont in whole at any time, or in part on any certain specified days at redemption prices of 100%–102% of the principal amount of the Series 2006A Bonds being redeemed, plus accrued interest thereon to the redemption date.

On October 1, 2010, the Series 2006B Bonds were called and paid in full at par value of $14,880.

(e) Series 2005

On December 8, 2005, The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee, issued, on behalf of Wellmont, $70,620 of Hospital Revenue Refunding Bonds, Series 2005. The Series 2005 Bonds together with other available funds were used to advance refund the previously issued Hospital Revenue Bonds, Series 2002, and to pay certain expenses incurred in connection with the issuance of the Series 2005 Bonds.

Principal on outstanding Series 2005 Bonds is payable through maturity or scheduled mandatory sinking fund redemption in annual amounts ranging from $1,945 to $3,390 commencing on September 1, 2007 through September 1, 2032. The terms of the bonds provide that bondholders may redeem or put the bonds to the remarketing agent on dates that approximate a weekly basis. The remarketing agent is obligated to remarket the redeemed bonds on a "best efforts" basis. Redeemed bonds are repaid to bondholders from the proceeds of the remarketing effort or, in the event of an inability to remarket the bonds, from a letter of credit. Subsequent to year-end, Wellmont amended its letter of credit to cover an amount equal to the principal and up to 40 days' interest on the bonds at a maximum interest rate of 12% per annum, and is effective through July 1, 2011. This letter secures the bonds in the event of a failed remarketing or liquidity issue. In the event of a liquidity drawing under the letter of credit, Wellmont shall pay the Base Rate for the first 90 days equal to the greater of (i) the Prime Rate plus 1.50% per annum, ii) the Federal Funds Rate plus 3.00% per annum, or iii) 7.50% per annum. ; the Base Rate plus 0.50% for days 91 through 366 and the Base Rate plus 1.00% thereafter until the amount is paid in full.

Outstanding Series 2005 Bonds are subject to redemption prior to maturity at the option of The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee upon direction by Wellmont in whole at any time, or in part on any certain specified days at redemption prices of 100%–102% of the principal amount of the Series 2005 Bonds being redeemed, plus accrued interest thereon to the redemption date.

(f) Series 2003

On June 1, 2003, The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee issued, on behalf of Wellmont, $59,100 of Hospital Revenue Bonds, Series 2003. The bonds were issued to provide funds necessary to refund Wellmont's Hospital Revenue Bonds, Series 1993 (HVHC), to fund a debt service reserve fund and to pay certain expenses incurred in connection with the issuance of the Series 2003 Bonds.

The Wellmont Series 2003 Bonds consist of $27,460 in fixed rate serial bonds and $19,280 in fixed rate term bonds payable through maturity or mandatory sinking fund redemption maturing in annual amounts ranging from $3,230 on September 1, 2007 to $4,140 on September 1, 2019, and carrying interest rates ranging from 2.5% to 5.00%.

(g) Master Trust Indenture

The master trust indenture and loan agreements for the 2007, 2006, 2005, and 2003 bonds contain certain requirements regarding deposits to trustee funds, maintenance of rates, maintenance of debt service coverage and liquidity, permitted indebtedness, and permitted disposition of assets. Gross receipts of Wellmont collateralize the bonds. The purpose of the master trust indenture is to provide a mechanism for the efficient and economical issuance of notes by individual members of Wellmont using the collective borrowing capacity and credit rating of Wellmont. The master trust indenture requires individual members of Wellmont to make principal and interest payments on notes issued for their benefit. The master trust indenture also requires Wellmont members to make payments on notes issued by other members of Wellmont if such other members are unable to satisfy their obligations under the master trust indenture. Payments of principal and interest on certain bonds are also insured by bond insurance policies.

Funds held by the trustee related to the various revenue bonds are available for specific purposes. The bond interest and revenue funds may be used only to pay interest and principal on the bonds; the debt service reserve fund may be used to pay interest and principal if sufficient funds are not available in the bond interest and revenue funds. The original issue discount and premium on all Bond Series outstanding are being amortized over the life of the bond issue using the effective-interest method.

(h) Notes Payable

During 2007, Wellmont entered into a five-year $3,000 note payable, which has a fixed interest rate of 7.25% and a termination date of July 2011; at June 30, 2010 and 2009, $2,062 and $2,319, respectively, was outstanding on this note.

During 2008, Wellmont entered into a five-year $2,400 term note payable, which has a fixed interest rate of 7.25% and a termination date of August 2012; at June 30, 2010 and 2009, $1,600 and $2,080, respectively, was outstanding on this note.

During 2010, Wellmont entered into a $2,767 note payable to finance the purchase of Cardiovascular Associates. The note payable has a fixed interest rate of 5.5% and a termination date of May 2013. At June 30, 2010, $2,767 was outstanding on this note.

(i) Capital Lease Obligations

Wellmont has entered into leases for certain equipment under agreements classified as capital leases that expire over periods through 2011. Assets under capital leases are included in property and equipment and have a net carrying value of $26,325 and $29,625 as of June 30, 2010 and 2009, respectively. Amortization of capital assets is included in depreciation expense. The lease obligations are recorded at the net present value of the minimum lease payments with interest rates from 4.3% to 6.0%.

(Dollars in thousands)

(j) Long-term Debt Maturities Schedule

Bond maturities in accordance with the original terms of the Master Trust Indenture and other long-term debt maturities for each of the next five years and in the aggregate at June 30, 2010 are as follows:

2011	$	11,958
2012		13,329
2013		12,935
2014		12,193
2015		12,415
Thereafter		410,536
	$	473,366

The following table reflects the required repayment terms for the years ended June 30 of Wellmont's debt obligations in the event that the put options associated with the 2005 bonds were exercised, but not successfully remarketed.

2011	$	11,958
2012		30,859
2013		30,365
2014		29,508
2015		9,755
Thereafter		360,921
	$	473,366

Interest paid for the years ended June 30, 2010 and 2009 was $20,792 and $21,564, respectively, net of amounts capitalized. Interest costs of $2,776 and $3,421, net of interest income of $683 and $3,293 in 2010 and 2009, respectively, were capitalized.

(12) Derivative Transactions

Interest Rate Swaps: Wellmont is a party to a number of interest rate swap agreements. Such swaps have not been designated as hedges and are valued at estimated fair value in the accompanying consolidated balance sheets. By using derivative financial instruments to hedge exposures to changes in interest rates, Wellmont exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes Wellmont, which creates credit risk for Wellmont. When the fair value of a derivative contract is negative, Wellmont owes the counterparty, and therefore, Wellmont is not exposed to the counterparty's credit risk in those circumstances. Pursuant to the terms of its interest rate swap agreements, Wellmont is required to postcollateral with its counterparties under certain specified conditions. Collateral posting requirements are based on the amount of Wellmont's derivative liability and

(Dollars in thousands)

Wellmont's bond rating. As of June 30, 2010 and 2009, Wellmont was not required to postcollateral related to its swaps.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

In September and October 2008, the counterparty and credit support provider to the swaps filed bankruptcy. Subsequent to the bankruptcy filings, no payments have been made by Wellmont or the counterparty to each other. As of June 30, 2010, the net amounts due to Wellmont for this period are less than $100 and have been fully reserved. The bankruptcy process is underway and the outcome cannot be determined at this time.

Management's primary objective in holding such derivatives is to introduce a fixed or variable rate component into its debt structure using LIBOR. The fair value as of June 30, 2010 and 2009 of approximately $(12,943) and $(10,250), respectively, is included in other liabilities in the consolidated balance sheets. The change in the fair value of the derivative instruments was approximately $(2,693) and $(5,747), respectively, in 2010 and 2009 and is included in nonoperating losses, net in the consolidated statements of operations. The terms of the swap agreements allow netting of all amounts due from/to the counterparty. The net amounts have been recorded pending the outcome of any bankruptcy proceedings. The following is a summary of the interest rate swap information as of June 30, 2010:

Type of interest swap	Debt hedging	Notional amount	Effective date	Maturity date	Rate paid	Rate received	Swap fair value asset (liability)
Total return swap	Series 2006A	$ 76,595	June 29, 2006	September 1, 2011	1.103%	5.440%	$ 1,101
Pay fixed interest rate swap	Series 2005	65,975	December 13, 2005	September 1, 2016	3.548	0.217	(6,810)
Basis swap	Series 2002	67,965	September 1, 2002	September 1, 2032	0.253	0.198	(2,710)
Pay fixed interest rate swap	Series 2006A	35,342	October 24, 2003	September 1, 2021	3.613	0.162	(4,524)
							$ (12,943)

The following is a summary of the interest rate swap information as of June 30, 2009:

Type of interest swap	Debt hedging	Notional amount	Effective date	Maturity date	Rate paid	Rate received	Swap fair value asset (liability)
Total return swap	Series 2006A	$ 76,595	June 29, 2006	September 1, 2011	2.744%	5.884%	$ 1,075
Pay fixed interest rate swap	Series 2005	65,975	December 13, 2005	September 1, 2016	3.548	0.309	(5,197)
Basis swap	Series 2002	67,965	September 1, 2002	September 1, 2032	1.894	1.728	(2,708)
Pay fixed interest rate swap	Series 2006A	35,342	October 24, 2003	September 1, 2021	3.613	1.184	(3,420)
							$ (10,250)

(13) Pension and Other Postretirement Benefits

Wellmont sponsors a retirement program and defined contribution retirement plan (Retirement Plan) that covers substantially all employees. This program and the related Retirement Plan were created from amendments, restatements, and mergers of existing defined contribution plans at BRMC and HVMC. Wellmont makes annual contributions to the Retirement Plan in an amount equal to 3% of each participant's base wages and contributes an additional amount, based on each participant's voluntary contributions, which cannot exceed certain limits established in the Internal Revenue Code, up to 3% of each participant's wages. The total pension expense related to the Retirement Plan was $9,990 and $9,937 for the years ended June 30, 2010 and 2009, respectively.

HVMC sponsored a noncontributory, defined benefit pension plan covering substantially all its employees. However, effective June 30, 1996, this plan was frozen and no further benefits accrue. LPH also sponsors a defined benefit pension plan covering substantially all its employees.

HVMC's defined pension benefits are actuarially determined based on a formula taking into consideration an employee's compensation and years of service. HVMC's funding policy is to make annual contributions to the plan based upon the funding standard developed by the plan actuary. This standard uses the projected unit credit actuarial cost method, including the amortization of prior service costs, over a 20-year period. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The LPH plan contains similar funding and actuarial policies.

On June 30, 2007, the HVMC plan merged into LPH plan and the plan name changed to Wellmont Health System Defined Benefit Plan. At the end of 2008, only a single defined pension plan exists. Collectively, the two defined benefit plans are referred to as the "Plans."

Wellmont recognizes the funded status (i.e., difference between the fair value of plan assets and projected benefit obligations) of its defined benefit pension plans as an asset or liability in its consolidated balance sheets and recognizes changes in that funded status in the year in which the changes occur as a change in unrestricted net assets. All defined benefit pension plans use a June 30 measurement date.

(Dollars in thousands)

The following table sets forth the funded status of the combined Plans, amounts recognized in the accompanying consolidated financial statements, and assumptions at June 30:

		2010	2009
Change in benefit obligation:			
Benefit obligation at beginning of year	$	40,035	37,212
Service cost		230	234
Interest cost		2,432	2,441
Actuarial losses		4,008	2,132
Benefits paid		(2,140)	(1,984)
Benefit obligation at end of year	$	44,565	40,035
Change in plan assets:			
Fair value of plan assets at beginning of year		33,326	43,420
Actual return on plan assets		3,361	(8,110)
Benefits paid		(2,140)	(1,984)
Fair value of plan assets at end of year		34,547	33,326
Funded status	$	(10,018)	(6,709)
Amounts recognized in the accompanying consolidated balance sheets:			
Pension liability – other long-term liability	$	(10,018)	(6,709)

(Continued)

(Dollars in thousands)

		2010	2009
Amounts not yet reflected in net periodic benefit cost and included as an accumulated charge to unrestricted net assets:			
Unrecognized actuarial loss	$	13,158	10,851
Unrecognized prior service cost		2	2
Net amounts included as an accumulated charge to unrestricted net assets	$	13,160	10,853
Calculation of change in unrestricted net assets:			
Accumulated charge to unrestricted net assets, end of year	$	13,160	10,853
Reversal of accumulated credit to unrestricted net assets, prior year		(10,853)	2,357
Change in unrestricted net assets	$	2,307	13,210
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:			
Actuarial loss arising during the year	$	2,907	13,210
Amortization of actuarial gain or loss		(600)	—
Amortization of prior service cost		—	—
Net amounts recognized as a charge to unrestricted net assets	$	2,307	13,210

(Continued)

(Dollars in thousands)

		2010	2009
Estimate of amounts that will be amortized from unrestricted net assets to net pension cost in 2011:			
Amortization of net loss	$	791	—
Amortization of prior service cost		—	2
Estimated future benefit payments:			
Fiscal 2011		2,211	2,150
Fiscal 2012		2,220	2,189
Fiscal 2013		2,337	2,314
Fiscal 2014		2,472	2,456
Fiscal 2015 (FY09 fiscal 2015 – 2019)		2,578	13,769
Fiscal 2016 – 2020		14,278	
Weighted average assumptions used to determine benefit obligations:			
Settlement (discount) rate		5.50%	6.25%
Weighted average rate of increase in future compensation levels		3.00	3.00
Components of net periodic benefit cost (benefit):			
Service cost	$	230	234
Interest cost		2,432	2,441
Expected return on plan assets		(2,259)	(2,968)
Amortization of unrecognized net loss		600	—
Amortization of unrecognized prior service cost		—	0
Net periodic benefit cost (benefit)	$	1,003	(293)
Weighted average assumptions used to determine net periodic benefit cost:			
Settlement (discount) rate		6.25%	6.75%
Expected long-term return on plan assets (HVMC)		7.00	7.00
Expected long-term return on plan assets (LPH)		7.00	7.00
Weighted average rate of increase in future compensation levels		3.00	3.00

Wellmont's overall expected long-term rate of return on assets is 7.00%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Wellmont does not expect to make any contributions to the Plans during 2011.

Wellmont has developed a plan investment policy, which is reviewed and approved by the board of directors. The policy established goals and objectives of the fund, asset allocations, asset classifications, and manager guidelines. The policy dictates a target asset allocation and an allowable range for such categories based on quarterly investment fluctuations. Investments are managed by independent advisers who are monitored by management and the board of directors.

(Dollars in thousands)

The table below shows the target allocation and actual asset allocations as of June 30, 2010 and 2009:

	Target	June 30,	
Asset	**allocation**	**2010**	**2009**
Equity securities	65%	56%	53%
Fixed income	28	27	29
Cash	5% – 15%	1	3
Other	5 – 15	16	15

Wellmont monitors the asset allocation and executes required recalibrations of the portfolio allocation on a regular basis in response to fluctuations in market conditions and the overall portfolio composition.

HVMC also participates in a health and welfare plan for its retirees. The plan provides postretirement medical and life insurance benefits to certain employees who meet minimum age and service requirements. Effective January 1, 1995, the death benefit was changed to provide a flat $5 benefit to all future retirees. During 1995, the medical program for retirees was amended to terminate medical benefits for any active employees who would not meet the full eligibility requirements of the program by January 1, 1996. The plan is contributory and contains other cost-sharing features such as deductibles and coinsurance.

(Dollars in thousands)

The following table sets forth the postretirement plan's funded status, amounts recognized in the accompanying consolidated financial statements, and assumptions at June 30:

		2010	2009
Change in benefit obligation:			
Benefit obligation at beginning of year	$	5,653	5,637
Interest cost		320	355
Plan participants contributions		73	36
Actuarial losses		197	23
Benefits paid		(382)	(398)
Benefit obligation at end of year		5,861	5,653
Change in plan assets:			
Fair value of plan assets at beginning of year		—	—
Employer contribution		309	362
Plan participants contributions		73	36
Benefits paid		(382)	(398)
Fair value of plan assets at end of year		—	—
Funded status	$	(5,861)	(5,653)
Amounts recognized in the consolidated balance sheets consist of:			
Noncurrent liaibilities	$	(5,861)	(5,653)
Accumulated credit to unrestricted net assets		3,560	4,076
	$	(2,301)	(1,577)

Amounts recognized as an accumulated credit to unrestricted net assets consist of:

		Postretirement benefits	
		2010	2009
Net actuarial gain	$	3,560	4,076

(Continued)

(Dollars in thousands)

Net periodic benefic cost recognized and other changes in plan assets and benefit obligations recognized in unrestricted net assets in 2010 and 2009 were:

	Postretirement benefits 2010	Postretirement benefits 2009
Net periodic benefit cost:		
Interest cost	$ 320	355
Amortization of net gain	(319)	(335)
Net periodic benefit cost recognized	1	20
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial loss	197	23
Amortization of net gain	319	335
Total recognized as a charge to unrestricted net assets	516	358
Total recognized in net periodic benefit cost and unrestricted net assets	$ 517	378

The net gain and prior service credit for the defined benefit postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $(261) and $0, respectively. Weighted average assumptions used to determine benefit obligations for 2010 and 2009 were as follows:

	Postretirement benefits 2010	Postretirement benefits 2009
Discount rate	5.00%	6.00%
Rate of compensation increase	—	—
Healthcare cost trend rate	5.00	5.00

Weighted average assumptions used to determine net benefit cost for 2010 and 2009 were as follows:

	Postretirement benefits 2010	Postretirement benefits 2009
Discount rate	6.00%	6.75%
Expected long-term rate of return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Healthcare cost trend rate	5.00%	5.00%

Wellmont's overall expected long-term rate of return on assets is 7%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

(Dollars in thousands)

For measurement purposes, a 5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2010.

The following table summarizes the effect of one-percentage-point increase/decrease in healthcare costs trends:

		2010	2009
Effect of one-percentage-point increase in healthcare cost trend on:			
Service and interest cost	$	20	22
Accumulated pension benefit obligation		330	326
Effect of one-percentage-point decrease in healthcare cost trend on:			
Service and interest cost		(18)	(20)
Accumulated pension benefit obligation		(294)	(291)

The asset allocations of Wellmont's pension and postretirement benefits as of June 30, 2010 and 2009, respectively, were as follows:

		Fair value measurement at June 30, 2010 pension benefits – plan assets			
Asset category		Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Stock mutual funds	$	28,803	19,412	9,391	—
Cash and money market funds		244	244	—	—
Alternative investments		5,500	—	—	5,500
Total	$	34,547	19,656	9,391	5,500

(Dollars in thousands)

		Fair value measurement at June 30, 2009 pension benefits – plan assets		
Asset category	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Stock mutual funds	$ 27,444	17,710	9,734	—
Cash and money market funds	749	749	—	—
Alternative investments	5,133	—	—	5,133
Total	$ 33,326	18,459	9,734	5,133

The following tables presents Wellmont's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820 for the years ended June 30, 2010 and 2009:

	Alternative investments
Balance at June 30, 2008	$ 7,960
Net change in value	(4,464)
Purchases, issuances, and settlements	1,637
Tranfers in and/or out of Level 3 (net)	—
Balance at June 30, 2009	5,133
Net change in value	254
Purchases, issuances, and settlements	113
Tranfers in and/or out of Level 3 (net)	—
Balance at June 30, 2010	$ 5,500

(14) Self-Insurance Programs

Wellmont is self-insured for professional and general liability and workers' compensation liability. Consulting actuaries have been retained to determine funding requirements and estimate claim liability exposures. Wellmont has established revocable self-insurance trust funds to provide for professional and general liability claims and workers' compensation claims and related expenses. Wellmont's contributions to the self-insurance trusts are based upon actuarial determinations by an independent service company. The professional and general liability self-insurance program is supplemented by umbrella excess liability policies consisting of various layers of coverage with commercial carriers based on policy year. The workers' compensation program is supplemented for Tennessee and Virginia by excess workers' compensation policies, with a commercial carrier for statutory limits per occurrence. Wellmont does not qualify as a self-insurer in Kentucky and hence purchases a separate policy for its operation in Kentucky. Provisions based on actuarial estimates are made for the ultimate cost of claims asserted, as well as estimates of claims incurred but not reported as of the respective consolidated balance sheet dates. Insurance expense under these programs amounted to approximately $3,414 and $5,658 for the years ended June 30, 2010 and 2009, respectively, and are included in other expense in the accompanying consolidated statements of operations and changes in net assets.

(Dollars in thousands)

At June 30, 2010 and 2009, Wellmont was involved in litigation relating to medical malpractice and workers' compensation claims arising in the ordinary course of business. There are also known incidents that occurred through June 30, 2010 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Claims have been filed requesting damages in excess of the amount accrued for estimated malpractice costs. Management of Wellmont is of the opinion that estimated professional and general liability amounts accrued at June 30, 2010 are adequate to provide for potential losses resulting from pending or potential litigation. Amounts of claim settlements may be more or less than what has been provided for by management. The ultimate settlement of claims could be different from recorded accruals, with such differences being potentially significant.

Wellmont is also self-insured for medical and other healthcare benefits provided to its employees and their families. A provision for estimated incurred but not reported claims has been provided in the consolidated financial statements.

(15) Commitments and Contingencies

Construction in progress at June 30, 2010 and 2009 relates primarily to the completion of certain buildings and renovations. Total costs to complete these and other projects were approximately $11,920 at June 30, 2010. Wellmont has entered into contracts of approximately $11,920 related to these projects.

Wellmont leases certain equipment and office space under operating lease agreements. Total rental expense under cancelable and noncancelable agreements was $16,857 and 16,441 for the years ended June 30, 2010 and 2009, respectively. Minimum future lease payments under noncancelable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2010 are as follows:

2011	$	14,227
2012		12,318
2013		8,149
2014		3,763
2015		3,383
Thereafter		20,699
	$	62,539

The HCHM lease to WHCMH is for 20 years and can be automatically extended for two additional terms of 10 years each. Should WHCMH generate annual net excess revenue over expenses, 50% shall be transferred to a designated fund in the Foundation for the purpose of healthcare projects. No transfers were required for the years ended June 30, 2010 and 2009.

(Dollars in thousands)

Wellmont has entered into contractual employment relationships with physicians to provide services to Wellmont physician practices that are intended to qualify under the employee safe harbor of the Anti-Kickback Statute and the employee exception of the Physician Self-Referral Law. These contracts have terms of varying lengths, guarantee certain base payments, and may provide for additional incentives based upon productivity.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, such matters as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare fraud and abuse. 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. Management believes Wellmont is in compliance with fraud and abuse statutes and other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

(16) Functional Expense Disclosure

Wellmont provides healthcare services to residents within its geographic location. Expenses based upon functional classification related to providing these services during the years ended June 30 are as follows:

		2010	2009
Professional care of patients	$	583,222	597,951
Administrative and general		117,123	101,641
Fund-raising		1,235	1,260
	$	701,580	700,852

(17) Income Taxes

Wellmont, Inc. and its subsidiaries file consolidated federal and separate company state income tax returns. These companies have combined net operating loss carryforwards for federal income tax purposes of approximately $52,000 at June 30, 2010, which begin expiring in fiscal 2016 and expire through 2030. These net operating losses can be used to offset future consolidated taxable income of Wellmont, Inc. and subsidiaries. Wellmont participates in certain activities that generate unrelated business taxable income. These activities have generated net operating losses in prior years, and Wellmont files a Form 990-T with the Internal Revenue Service to report such activity. Wellmont has net operating loss carryforwards for federal income tax purposes of approximately $975 for unrelated business activities. Management believes that it is not more likely than not that deferred tax assets arising from net operating loss carryforwards will be realizable. Accordingly, these are fully reserved at June 30, 2010 and 2009.

(Dollars in thousands)

(18) Concentration of Credit Risk

Wellmont grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2010 and 2009 was as follows:

	2010	2009
Medicare	46%	45%
TennCare	4	4
Medicaid	8	8
Other third-party payors	31	31
Patients	11	12
	100%	100%

(19) Disclosures about Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair value of each class of instruments:

Cash and Cash Equivalents

The carrying amount approximates fair value due to the short maturities of these instruments.

Patient Accounts and Other Receivables

The net recorded carrying value approximates fair value due to the short maturities of these instruments.

Investments and Assets Limited as to Use

The fair values of investments and assets limited as to use are based on quoted market prices and quotes obtained from security brokers or, in the case of the limited partnerships, by the general partner.

Accounts Payable and Accrued Expenses

The carrying amount approximates fair value due to the short maturities of these liabilities.

Estimated Third-Party Payor Settlements, Other Long-Term Liabilities

The carrying amount approximates fair market value due to the nature of these liabilities.

Long-Term Debt

The fair value of revenue bonds, using current market rates, was estimated at $422,290 and $344,863 for the years ended June 30, 2010 and 2009, respectively.

(Continued)

(b) Fair Value Hierarchy

On July 1, 2008, Wellmont adopted new guidance issued by FASB for fair value measurement of financial assets and financial liabilities and for fair value measurement of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis now codified into ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that Wellmont has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices including within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

In conjunction with the adoption of the new guidance, Wellmont elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12 to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends the previous guidance and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances may not equal fair value that would be calculated pursuant to ASC 820. The fair value of these investments was $56,972 and $37,312 at June 30, 2010 and 2009, respectively.

(Dollars in thousands)

The following table presents assets and liabilities that are measured at fair value on recurring basis at June 30, 2010:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 35,711	—	—	35,711
Assets limited as to use:				
Stock mutual funds	109,629	—	—	109,629
Bond mutual funds	71,698	—	—	71,698
Cash and money market funds	50,555	—	—	50,555
Real estate funds	7,468	—	—	7,468
Alternative investments		18,043	39,362	57,405
Corporate bonds	6,867	—	—	6,867
	246,217	18,043	39,362	303,622
Long-term investments:				
Stock mutual funds	9,279	—	—	9,279
Bond mutual funds	7,599	—	—	7,599
Cash and money market funds	287	—	—	287
Real estate funds	1,722	—	—	1,722
Alternative investments	—	1,992	—	1,992
	18,887	1,992	—	20,879
Total assets	$ 300,815	20,035	39,362	360,212
Liabilities:				
Interest rate derivatives liability	$ —	12,943	—	12,943
Total liability	$ —	12,943	—	12,943

(Continued)

(Dollars in thousands)

The following table presents assets and liabilities that are measured at fair value on recurring basis at June 30, 2009:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 60,889	—	—	60,889
Assets limited as to use:				
Stock mutual funds	108,036	—	—	108,036
Bond mutual funds	5,910	—	—	5,910
Cash and money market funds	85,386	—	—	85,386
Real estate funds	5,419	—	—	5,419
Alternative investments		2,295	33,291	35,586
Corporate bonds	7,464	—	—	7,464
	212,215	2,295	33,291	247,801
Long-term investments:				
Stock mutual funds	8,631	—	—	8,631
Bond mutual funds	3,648	—	—	3,648
Cash and money market funds	5,202	—	—	5,202
Real estate funds	1,255	—	—	1,255
Alternative investments	—	1,726	—	1,726
	18,736	1,726	—	20,462
Total assets	$ 291,840	4,021	33,291	329,152
Liabilities:				
Interest rate derivatives liability	$ —	10,250	—	10,250
Total liability	$ —	10,250	—	10,250

(Continued)

(Dollars in thousands)

The following table presents Wellmont's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820 for the years ended June 30, 2010 and 2009:

		Alternative investments
Balance at June 30, 2008:	$	51,661
Total realized and unrealized gains (losses):		
Included in revenues and gains in excess of expenses and losses		—
Included in changes in net assets		(3,574)
Purchases, issuances, and settlements		(14,796)
Transfers in and/or out of Level 3 (net)		—
Balance at June 30, 2009:	$	33,291
Total realized and unrealized gains (losses):		
Included in revenues and gains in excess of expenses and losses		—
Included in changes in net assets		469
Purchases, issuances, and settlements		5,602
Transfers in and/or out of Level 3 (net)		—
Balance at June 30, 2010	$	39,362

APPENDIX C.

SUMMARY OF THE FINANCING DOCUMENTS

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SUMMARY OF THE FINANCING DOCUMENTS

Brief descriptions of the Master Indenture, the 2011 Bond Indenture and the Loan Agreement are included hereafter 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 2011 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 Corporation and the Bond Trustee. All references to the Series 2011 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto included in the 2011 Bond Indenture.

DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used in the Master Indenture, the 2011 Bond Indenture, the Loan Agreement and the Official Statement. Certain definitions used below may have been modified so long as the Series 2011 Obligation is outstanding. See "Summary of Certain Provisions of the Master Indenture - Provisions Applicable as Long as Series 2011 Obligation Outstanding."

"Accountant" means any Person who or which is appointed (a) by any member of the Combined Group for the purpose of examining and reporting on or passing on questions relating to the financial statements of such member or (b) by the Obligated Group Agent for the purpose of examining and reporting on or passing on questions relating to the financial statements of two or more members of the Combined Group or the entire Combined Group, has all certifications necessary for the performance of such services, and, in the good faith opinion of the person making the appointment, has a favorable reputation for skill and experience in performing similar services in respect of entities of a comparable size and nature. If any Accountant's report or opinion is required to be given with respect to matters partly within and partly without the expertise of such Accountant, such Accountant may rely upon the report or opinion of another Accountant, which other Accountant shall be reasonably satisfactory to the relying Accountant and the Obligated Group Agent.

"Act" means Sections 48-101-301 to 48-101-318, Tennessee Code Annotated, as from time to time amended.

"Act of Bankruptcy" means the filing of a petition in bankruptcy (or any other commencement of a bankruptcy or similar proceeding) by or against the Corporation or any affiliate of the Corporation under any applicable bankruptcy, insolvency, reorganization or similar law, now or hereafter in effect.

"Additional Indebtedness" means any Indebtedness (including all Obligations, other than the Series 2003 Obligation, the Series 2005 Obligations, the Series 2006C Obligation, the Series 2007A Obligation, the Series 2010 Obligation, the Series 2011 Obligation and Series 2011 Swap Obligation) incurred by any Obligated Issuer, subsequent to its becoming an Obligated Issuer.

"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 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.

"Architect" means a Person who or which is appointed by any member of the Combined Group for the purpose of passing on questions relating to the design and construction of Facilities, has all licenses and certifications necessary for the performance of such services, and, in the good faith opinion of the Person making the appointment, has a favorable reputation for skill and experience in performing similar service in respect of Facilities of a comparable size and nature.

"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.

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

"Bond Counsel" means a firm of nationally recognized standing in the field of municipal finance law whose opinions are generally accepted by purchasers of public obligations and who is acceptable to the Bond Trustee.

"Bond Fund" means the fund by that name created pursuant to the provisions of the 2011 Bond Indenture.

"Bond Index" means (i) in respect of any Outstanding Indebtedness, the average interest rate on such Indebtedness for the twelve (12) months immediately preceding the month prior to such calculation, or if such Indebtedness shall have had a variable rate for less than a twelve (12) month period, the average interest rate on such Indebtedness for such lesser period; and (ii) in respect of any proposed Indebtedness, at the option of the Obligated Group Agent, the initial rate established or reasonably expected to be established for such Indebtedness, as determined by an Officer's Certificate.

"Bond Trustee" means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under the laws of the United States, and its successors and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor Bond Trustee at the time serving as successor Bond Trustee under the 2011 Bond Indenture.

"Book Entry System" means the system maintained by the Securities Depository as provided in the 2011 Bond Indenture.

"Book Value", when used in connection with Property of any member of the Combined 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 Combined Group, means the aggregate of the values so determined with respect to such Property of all members of the Combined Group determined in such a manner that no portion of such value of Property of any member of the Combined Group is included more than once.

"Business Day" means any day other than (a) a Saturday or Sunday, (b) a day on which the Bond Trustee is required or permitted by law to close, and (c) a day on which the New York Stock Exchange is closed.

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

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

"Combined Group" means the Obligated Group and all Restricted Affiliates.

"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 (a) 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 of the Master Indenture, and (b) with a principal amount not in excess of the amount required (1) to provide a completed and equipped Facility of substantially the type and scope contemplated at the time such prior Long-Term Indebtedness was incurred, (2) to provide for capitalized interest during the period of construction, (3) to capitalize a reserve with respect to such Completion Indebtedness and (4) 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.

"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 Combined Group or the entire Combined 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.

"Corporation" means Wellmont Health System, a Tennessee nonprofit corporation, and its successors and assigns and any surviving, resulting or transferee entity as provided in the Agreement.

"Corporation Representative" means the person or persons at the time designated to act on behalf of the Corporation by written certificate furnished to the Issuer and the Bond Trustee containing the specimen signatures of such person or persons and signed on behalf of the Corporation by its President or Vice President. Such certificate may designate an alternate or alternates.

"Costs of Issuance" means the fees, costs, expenses and other charges incurred in connection with the issuance of the Series 2011 Bonds, including, but not limited to, the following: (a) counsel fees (including but not limited to Bond Counsel, Issuer's counsel, Trustee's counsel, Corporation's counsel, and underwriter's counsel); (b) underwriter's discount and financial advisor fees incurred in connection with the issuance of the Series 2011 Bonds; (c) initial Trustee acceptance and set-up fees and expenses incurred in connection with the issuance of the Series 2011 Bonds; (d) Trustee and authenticating agent fees and expenses related to issuance of the Series 2011 Bonds; and (e) printing costs for any offering materials.

"Costs of Issuance Fund" means the fund by that name created pursuant to the provisions of the 2011 Bond Indenture.

"Counsel" means 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 to be rendered by such Counsel.

"Cross Guarantee" means the obligations of each Obligated Issuer pursuant to Section 2.3 of the Master Indenture.

"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) (a) that any Indebtedness represented by a Guaranty shall be deemed payable on the dates and in the amounts contemplated in Section 4.3 of the Master Indenture (concerning the assumptions to be used in including debt service requirements of the guaranteed obligations), (b) 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, (c) 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, and (d) 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), or funded from the proceeds of such Long-Term Indebtedness (i.e., accrued and capitalized interest), shall be excluded from the determination of the Debt Service Requirement.

"Eighth Supplemental Master Indenture" means the Eighth Supplemental Master Indenture, dated as of November 1, 2006, among the Corporation (as successor to Bristol Memorial Hospital), Wellmont Hawkins County Memorial Hospital, Inc., Wellmont, Inc., Wellmont Foundation and the Master Trustee pursuant to which the Series 2006C Obligation was issued.

"Eleventh Supplemental Master Indenture" means the Eleventh Supplemental Master Indenture dated as of May 1, 2011 among the Corporation (as the successor to Bristol Memorial Hospital), Wellmont Hawkins County Memorial Hospital, Inc., Wellmont, Inc., Wellmont Foundation and the Master Trustee pursuant to which the Series 2011 Obligation is issued.

"Escrow Deposit" means a segregated escrow fund or other similar fund, account or deposit in trust of cash in an amount (or Investment Securities 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.

"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:

(a) 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

(b) 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

(c) $1.00.

"Fifth Supplemental Master Indenture" means the Fifth Supplemental Master Indenture, dated as of February 1, 2003, among the Corporation (as successor to Bristol Memorial Hospital) as a member of the Obligated Group, Wellmont Hawkins County Memorial Hospital, Inc., Wellmont, Inc., Wellmont Foundation and the Master Trustee pursuant to which the Series 2003 Obligation was issued.

"Financial Advisor" means 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 Combined 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" 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 their assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "Fitch" will be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation by written notice to the Bond Trustee.

"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" as used in the Master Indenture means (i) 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 custody agreement, and (ii) obligations issued by any state of the United States of America or any political subdivision, public instrumentality or public authority of any state of the United States of America, provision for the full and timely payment of the principal or premium of and interest on which shall have been made by deposit with a trustee or escrow agent, pursuant to an irrevocable security agreement, of obligations described in clause (i) above.

"Government Obligations" as used in the 2011 Bond Indenture means direct general obligation of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed as to full and timely payment by, the United States of America, which obligations are noncallable.

"Gross Receipts" means all receipts, revenues, income, gifts, donations, contributions, grants, bequests, pledges, chattel paper and instruments and other moneys received by or on behalf of the Obligated Group, including, but without limiting the generality of the foregoing, (a) revenues derived from the ownership or operation of Property, including insurance and condemnation proceeds with respect to Property or any portion thereof, and (b) all rights to receive the same, whether in the form of accounts, accounts receivable, contract rights or other rights and the proceeds of such rights, whether now owned, or held or hereafter coming into existence; provided however that (i) gifts, donations, contributions, grants (including Hill-Burton grants), bequests and pledges heretofore or hereafter made and designated as specified by the granting authority, donor or maker thereof as being for specified purposes (inconsistent with the payment of debt service on Indebtedness) and income derived therefrom to the extent required by such designation or specification, and (ii) revenues, receipts and income derived from the ownership and operation of Property which secures Non-Recourse Indebtedness shall be excluded from Gross Receipts.

"Guaranty" means any obligation of a Combined Group member guaranteeing any obligation of any other Person other than a Combined 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 Combined Group, constitute Indebtedness thereunder.

"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 Combined 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 Combined 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 Combined 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 depository 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 means 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 depository 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.

"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 after tax, as determined in accordance with generally accepted accounting principles, to which shall be added, in either case, (a) depreciation, (b) amortization, and (c) interest expense on Indebtedness, and from which shall be excluded any extraordinary items, 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 and any revenues or expenses of any Person which is not a member of the Combined Group.

"Indebtedness" of a Person means (a) all Notes and Guaranties, (b) all liabilities (exclusive of reserves) recorded as indebtedness 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 (c) all other obligations for borrowed money; provided that Indebtedness shall not include (1) Subordinated Indebtedness, (2) Interest Rate Swap Obligations, (3) any other Indebtedness of any member of the Combined Group to any other member of the Combined Group, (4) rentals payable under leases which are not properly capitalized under generally accepted accounting principles, or (5) any other obligation which does not constitute indebtedness under generally accepted accounting principles.

"Indenture Guaranty" means any Guaranty issued under the Master Indenture by an Obligated Issuer.

"Insurance Consultant" means a Person, who or which is appointed by any member of the Combined Group for the purpose of reviewing and recommending insurance coverage for the Facilities and operations of one or more members of the Combined Group or the entire Combined Group and, in the good faith opinion of the person making the appointment, has a favorable reputation for skill and experience in performing such services in respect of Facilities and operations of a comparable size and nature. If an Insurance Consultant's report or opinion is required to be given with respect to matters partly within and partly without the expertise of such Insurance Consultant, such Insurance Consultant may rely upon the report or opinion of another Insurance Consultant or other expert, which other Insurance Consultant or other expert shall be reasonably satisfactory to the relying Insurance Consultant and the Obligated Group Agent.

"Interest Payment Date" means each March 1 and September 1, commencing September 1, 2011.

"Investment Securities" means and includes 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; Inter-American Development Bank; International Bank for Reconstruction and Development; Federal Land Banks; 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 S&P or Moody's in any of the three highest rating categories (without reference to sub-categories) assigned by S&P or Moody's;

(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 subparagraph (c) above, whether through

(1) 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

(2) 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 S&P or Moody's;

(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 S&P or Moody's (without reference to subcategories) in the highest rating category assigned by S&P or Moody's.

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 subparagraphs (e) and (f) above shall be subject to the following:

(1) the collateral shall be in the form of obligations described in subparagraphs (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.

(2) 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" means The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee.

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

"Limited Obligor" means any Person, other than a member of the Combined Group, on whose account any Obligated Issuer has issued a Guaranty as consideration for such Person's execution and delivery to such Obligated Issuer of a Pledged Note.

"Long-Term Indebtedness" means (a) 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 (b) 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 (1) Non-Recourse Indebtedness or Subordinated Indebtedness; (2) current obligations payable out of current revenues, including current payments for the funding of pension plans and contributions to self insurance programs; (3) 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 (4) rentals payable under leases which are not properly capitalized under generally accepted accounting principles.

"Master Indenture" means the Master Trust Indenture, dated as of May 1, 1991, between the Corporation's predecessor, Bristol Memorial Hospital, and the Master Trustee, as supplemented prior to the date hereof, and as further supplemented by the Eleventh Supplemental Master Indenture and Twelfth Supplemental Master Indenture and as it may from time to time be amended or supplemented in accordance with the terms thereof.

"Master Trustee" means U.S. Bank National Association (as successor to Wachovia Bank, National Association, First Union National Bank and Dominion Bank of Middle Tennessee), or any successor master trustee under the Master Indenture.

"Maximum Annual Debt Service" of the Combined Group means the highest annual Debt Service Requirement of the Combined 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 (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 in part, with the proceeds of such Obligations by such Person.

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

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "Moody's" will be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation by written notice to the Bond Trustee.

"Net Operating Revenues" of a Person means, with respect to any period of time, operating revenues less contractual allowances, free care, discounts and allowances for bad debts, all determined in accordance with generally accepted accounting principles.

"Ninth Supplemental Master Indenture" means the Ninth Supplemental Master Indenture dated as of July 1, 2007 among the Corporation (as the successor to Bristol Memorial Hospital), Wellmont Hawkins County Memorial Hospital, Inc., Wellmont, Inc., Wellmont Foundation and the Master Trustee, pursuant to which the Series 2007A Obligation is issued.

"Non-Arbitrage Certificate" means the Non-Arbitrage Certificate dated the date of delivery of the Series 2011 Bonds and executed by the Issuer.

"Non-Recourse Indebtedness" means any Indebtedness secured by a Lien on any real property, fixtures and tangible personal property, which Indebtedness is not a general obligation of the Obligated Group or any Obligated Issuer, and the liability for which Indebtedness is effectively limited to the property subject to such Lien (and the revenues derived therefrom), with no recourse, directly or indirectly, to any other property.

"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 thereof.

"Obligated Group" means the Corporation, Wellmont Hawkins County Memorial Hospital, Inc., Wellmont, Inc., Wellmont Foundation and each other Person who becomes a member of the Obligated Group in accordance with the Master Indenture.

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

"Obligated Issuer" means (a) the Corporation, Wellmont Hawkins County Memorial Hospital, Inc., Wellmont, Inc. and Wellmont Foundation and each other Person which becomes an Obligated Issuer in accordance with the provisions of Article Three 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 Article Three thereof, and (b) 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 under the Master Indenture and any additional forms of Obligations created pursuant to Section 9.1 of 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 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.

"Outstanding" (a) when used with reference to Notes, means, as of any date of determination, all Notes theretofore issued or incurred and not paid and discharged other than (1) Notes theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (2) Notes deemed paid and no longer Outstanding as provided in Article XI of the Master Indenture or for which an Escrow Deposit has been established, (3) Notes in lieu of which other Notes have been authenticated and delivered or have been paid pursuant to the provisions of the Master Indenture regarding mutilated, destroyed, lost or stolen Notes unless proof satisfactory to the Master Trustee has been received that any such Note is held by a bona fide purchaser for value without notice, and (4) any Note held by any Obligated Issuer; or, (b) all Indenture Guaranties unless the Master Trustee has received from the Holder thereof a written release of all claims thereof against the Obligated Issuer thereunder and all other Obligated Issuers; or, (c) when referring to Indebtedness other than Notes and Indenture Guaranties, means, as of any date of determination, all Indebtedness theretofore issued or incurred other than (1) Indebtedness which has been paid, (2) Indebtedness for which an opinion of Counsel stating that such Indebtedness has been discharged has been provided to the Master Trustee, (3) evidence of Indebtedness for which new evidence has been substituted in a manner analogous to clause (a)(3) above, and (4) any evidence of Indebtedness held by any Obligated Issuer, provided that Obligations or evidences of Indebtedness held by any Obligated Issuer may be deemed by such Obligated Issuer to be continuously Outstanding if such Obligations or evidences of Indebtedness were acquired with an intent that they only be held temporarily in connection with an effort to remarket them to Persons other than the Obligated Issuer.

"Outstanding" or "Bonds Outstanding" means all Series 2011 Bonds which have been authenticated and delivered by the Bond Trustee under the 2011 Bond Indenture, except:

(a) Series 2011 Bonds canceled after purchase in the open market or because of payment at, or redemption prior to, maturity;

(b) Series 2011 Bonds paid or deemed paid pursuant to the 2011 Bond Indenture;

(c) Series 2011 Bonds in lieu of which others have been authenticated under the provisions of the 2011 Bond Indenture; and

(d) Series 2011 Bonds deemed tendered under the 2011 Bond Indenture and for which another Series 2011 Bond has been issued.

"Owner" means the person or persons in whose name or names a Series 2011 Bond is registered on the books of the Issuer kept by the Bond Trustee for that purpose in accordance with provisions of the 2011 Bond Indenture.

"Participant" means one of the entities which is a member of the Securities Depository and deposits securities, directly or indirectly, in the Book Entry System.

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

(a) Any judgment lien or notice of pending action against any member of the Combined 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 the Master Indenture nor any Property of any member of the Combined Group will be materially impaired or subject to material loss or forfeiture;

(b) (1) 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 (i) 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 (ii) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property; (2) 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; (3) 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; (4) 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 (5) to the extent that it affects title to any Property, the Master Indenture;

(c) Any lease which relates to Property of the Combined 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;

(d) 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;

(e) 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 Combined 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;

(f) 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 Combined 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;

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

(h) (1) 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 (2) Liens in favor of a trustee, including the Master Trustee, to secure obligations to compensate, reimburse or indemnify such trustees;

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

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

(k) 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;

(l) Liens existing at the time of a Consolidation or Merger pursuant to Section 6.4 of the Master Indenture, on the date of acquisition of any Property or at the time a Person becomes an Obligated

Issuer pursuant to "-Persons Becoming Obligated Issuers" below or a Restricted Affiliate pursuant to "-Conditions for Designation of Restricted Affiliates" below;

(m) Liens existing at the time of any consolidation, merger, sale or conveyance pursuant to Section 6.4 of the Master Indenture, on the date of acquisition of any Property or at the time a Person becomes an Obligated Issuer pursuant to "-Persons Becoming Obligated Issuers" below or a Restricted Affiliate pursuant to "-Conditions for Designation of Restricted Affiliates" below; provided that

(1) No lien so described may be extended or renewed, nor may it be modified, to apply to any Property or any member of the Obligated Group not subject to such lien on the effective date, unless the lien as so extended, renewed or modified, or the replacement lien, otherwise qualified as a Permitted Encumbrance;

(2) No Additional Indebtedness may be thereafter incurred that is secured by such lien;

(3) No such lien was created in order to avoid the limitations contained herein on the imposition of liens on the property of the Obligated Group; and

(4) Such indebtedness does not become part of the Indebtedness of the Obligated Group.

(n) Any Lien described in Exhibit A to the Master Indenture which is existing on the date of authentication and delivery of the Initial Obligation 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 Combined Group not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien thereunder;

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

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

(q) Deposits of cash or cash equivalents to secure obligations under letters of credit incurred in the ordinary course of business of any member of the Combined Group.

"Person" means 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.

"Pledged Note" means a promissory note executed by a Limited Obligor, as maker, in favor of an Obligated Issuer, as payee, evidencing a sum certain liability of such maker to such payee, which is assigned by such payee to the Master Trustee pursuant to Section 2.3 of the Master Indenture.

"Principal Office" of the Bond Trustee means the address specified in the 2011 Bond Indenture or such other address as may be designated in writing to the Issuer and the Corporation.

"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 Combined Group.

"Property" means any and all land, leasehold interests, building, machinery, equipment, hardware, and inventory of each Obligated Issuer wherever located and whether now or hereafter acquired, and any and all rights, title and interest in and to any and all property whether real or personal, tangible or intangible and wherever situated and whether now or hereafter acquired.

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

"Qualified Financial Corporation" means 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 S&P or Moody's. 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" means, severally or collectively, if applicable (a) S&P 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, (b) Moody's 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 (c) Fitch 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, the 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.

"Rebate Fund" means the fund by that name created pursuant to the provisions of the 2011 Bond Indenture.

"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, means 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, (1) 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 the Master Indenture) is granted, and (2) 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.

"Reserved Rights" means amounts payable to the Issuer pursuant to the Loan Agreement as described under "Summary of Certain Provisions of the Loan Agreement - Obligation Payments; Fund Deposits; Prepayments and Other Payments - Additional Payments," "- Particular Covenants of the Corporation - Indemnity" and "- Defaults and Remedies - Agreement to Pay Attorneys' Fees, Costs and Expenses" below, and the right of the Issuer to receive notices.

"Responsible Officer" when used with respect to the Bond Trustee, means any officer within the corporate trust administrative department of the Bond Trustee, including any vice president, any assistant vice president, any trust officer, or any other officer of the Bond Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his or her knowledge of and familiarity with the particular subject.

"Restricted Affiliate" means any Affiliate of a member of the Obligated Group that:

(a) is either (1) a non-stock membership corporation of which one or more members of the Combined Group are the sole members, or (2) a non-stock, non-membership corporation or a trust of which the sole beneficiaries or controlling Persons are one or more members of the Combined Group, or (3) a stock corporation all of the outstanding shares of stock of which are owned by one or more members of the Combined Group, and

(b) if such Affiliate is a non-stock corporation or a trust,

(1) has the legal power, with approval of a majority of its Governing Body but without the consent of any other Person, to transfer to any Obligated Issuer (or to another Restricted Affiliate that possesses the power to transfer to any Obligated Issuer) money required for the payment of Indebtedness of any Obligated Issuer, and

(2) one or more members of the Combined Group have the sole right to elect or appoint and to remove, with or without cause, a majority of the members of the Governing Body thereof, and

(3) has the ability under applicable law and its organizational documents, with approval of a majority of the members of its Governing Body, to transfer all assets of such Affiliate remaining after payment of its debts to any Obligated Issuer or to another Restricted Affiliate whose remaining assets may be so transferred, provided that if such Affiliate is an organization described in Section 501(c)(3) of the Code, then for so long as the applicable Obligated Issuer is an organization described in Section 501(c)(3) of the Code, the organizational documents of such Affiliate and applicable law may (i) provide for the naming of another member of the Combined Group as a substitute beneficiary if the then current beneficiary ceases to be an organization described in Section 501(c)(3) of the Code and (ii) prohibit transfers to organizations not described in Section 501(c)(3) of the Code, and

(c) has satisfied (or a predecessor has satisfied) the requirements set forth in the Master Indenture for becoming a Restricted Affiliate and has not thereafter ceased to satisfy the requirements of clauses (a) and (b) above or satisfied the requirements set forth in the Master Indenture for ceasing to be a Restricted Affiliate.

The fact that one or more specified elements described above is not satisfied shall not disqualify a Person as a Restricted Affiliate if, in the written opinion of Counsel to such Restricted Affiliate delivered to the Master Trustee, substantially all of the indicia described above relating to the power to transfer Property of, and control, the applicable Affiliate of a member of the Combined Group, is vested in one or more members of the Combined Group.

"Securities Depository" means The Depository Trust Corporation, New York, New York, or its nominee, and its successors and assigns.

"Series 2003 Bonds" means the Issuer's Hospital Revenue Refunding Bonds (Wellmont Health System Project) Series 2003 issued in the original aggregate principal amount of $59,100,000 pursuant to the terms and conditions of the Bond Trust Indenture dated as of February 1, 2003 between the Issuer and BNY Trust Company of Missouri, as bond trustee thereunder.

"Series 2003 Obligation" means the $59,100,000 principal amount Wellmont Health System Note (The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee), Refunding Series 2003, issued pursuant to the Fifth Supplemental Master Indenture

"Series 2005 Bonds" means the Issuer's Hospital Revenue Refunding Bonds (Wellmont Health System Project) Series 2005 issued in the original aggregate principal amount of $70,620,000 pursuant to the terms and conditions of the Bond Trust Indenture dated as of December 1, 2005 between the Issuer and The Bank of New York Mellon Trust Company, N.A., as bond trustee thereunder.

"Series 2005 Obligations" means the $70,620,000 principal amount Wellmont Health System Note (The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee), Refunding Series 2005, and the $71,548,702 principal amount Standby Note (2005 Master Note) of the Obligated Group, Reimbursement Obligation, each issued pursuant to the Sixth Supplemental Master Indenture.

"Series 2006C Bonds" means the Issuer's Hospital Revenue Bonds (Wellmont Health System Project) Series 2006C issued in the original aggregate principal amount of $200,000,000 pursuant to the terms and conditions of the Bond Trust Indenture dated as of November 1, 2006 between the Issuer and The Bank of New York Mellon Trust Company, N.A., as bond trustee thereunder.

"Series 2006C Obligation" means the $200,000,000 principal amount Wellmont Health System Note (The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee), Series 2006C, issued pursuant to the Eighth Supplemental Master Indenture.

"Series 2007A Bonds" means the Virginia Small Business Financing Authority's Hospital Revenue Bonds (Wellmont Health System Project), Series 2007A issued in the original aggregate principal amount of $55,000,000 pursuant to the terms and conditions of the Bond Trust Indenture dated as of July 1, 2007 between the Virginia Small Business Financing Authority and The Bank of New York Mellon Trust Company, N.A., as bond trustee thereunder.

"Series 2007A Obligation" means the $55,000,000 principal amount Wellmont Health System Note (Virginia Small Business Financing Authority), Series 2007A, issued pursuant to the Ninth Supplemental Master Indenture.

"Series 2010 Bond" means the Issuer's Hospital Revenue Bond (Wellmont Health System Project), Series 2010 (Bank Qualified) issued in the original aggregate principal amount of $30,000,000 pursuant to the terms and conditions of the Bond Purchase Agreement dated as of November 1, 2010 between the Issuer and First Tennessee Bank National Association, a national banking association, as purchaser.

"Series 2010 Obligation" means the $30,000,000 principal amount Wellmont Health System Note (The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee), Series 2010, issued pursuant to the Tenth Supplemental Master Indenture.

"Series 2011 Bonds" means the Issuer's Hospital Revenue Refunding Bonds (Wellmont Health System Project), Series 2011 issued in the original aggregate principal amount of $76,165,000 pursuant to the terms and conditions of the Bond Trust Indenture dated as of May 1, 2011 between The Bank of New York Mellon Trust Company, N.A., as bond trustee thereunder.

"Series 2011 Obligation" means the $76,165,000 principal amount Wellmont Health System Note (The Health Educational and Housing Facilities Board of the County of Sullivan, Tennessee), Series 2011, issued pursuant to the Eleventh Supplemental Master Indenture.

"Series 2011 Swap Obligation" means the Wellmont Health System Promissory Note Constituting Series 2011 Swap Obligation, issued pursuant to the Twelfth Supplemental Master Indenture.

"Short-Term Indebtedness" means all Indebtedness other than Long-Term Indebtedness.

"Sixth Supplemental Master Indenture" means the Sixth Supplemental Master Indenture dated as of December 1, 2005 among the Corporation (as the successor to Bristol Memorial Hospital), Wellmont Hawkins County Memorial Hospital, Inc., Wellmont, Inc., Wellmont Foundation and the Master Trustee, pursuant to which the Series 2005 Obligations were issued.

"S&P" means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "S&P" will be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation by written notice to the Bond Trustee.

"State" means the State of Tennessee.

"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, (a) all Obligations issued pursuant to the Master Indenture, and (b) all other obligations of the Obligated Group thereunder, 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 the Master Indenture, and such "event of default" shall not have been cured or waived or shall not have ceased to exist; and (c) 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.

"Supplemental Indenture" means an indenture supplemental to, and authorized and executed pursuant to, the terms of the Master Indenture.

"Tax Compliance Agreement" means the Tax Compliance Agreement dated as of May 1, 2011 between the Issuer and the Corporation.

"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.

"Tenth Supplemental Master Indenture" means the Tenth Supplemental Master Indenture dated as of November 1, 2010 among the Corporation (as the successor to Bristol Memorial Hospital), Wellmont Hawkins County Memorial Hospital, Inc., Wellmont Inc., Wellmont Foundation and the Master Trustee pursuant to which the Series 2010 Obligation was issued.

"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 Combined Group for such period, determined in such a manner that no portion of Income Available for Debt Service of any member of the Combined Group is included more than once, plus (b) the Income Available For Debt Service of each Limited Obligor up to an amount equal to the amount of such Limited Obligor's Debt Service Requirement for such period with respect to the Indebtedness of such Limited Obligor guaranteed by a member of the Combined Group.

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

"Trust Estate" means the property conveyed to the Bond Trustee pursuant to the Granting Clauses of the 2011 Bond Indenture.

"Twelfth Supplemental Master Indenture" means the Twelfth Supplemental Master Indenture dated as of May 1, 2011 among among the Corporation (as the successor to Bristol Memorial Hospital), Wellmont Hawkins County Memorial Hospital, Inc., Wellmont Inc., Wellmont Foundation and the Master Trustee pursuant to which the Series 2011 Swap Obligation was issued.

"Unrelated Trade or Business" means an activity which constitutes an "unrelated trade or business" within the meaning of Section 513(a) of the Code without regard to whether such activity results in unrelated trade or business income subject to taxation under Section 512(a) of the Code.

"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) (1) 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 (2) 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.

"Written Request" means with reference to the Issuer, a request in writing signed by the Chairman, Vice-Chairman or Secretary of the Issuer and with reference to the Corporation means a request in writing signed by the President or a Vice President of the Corporation, or any other officers designated by the Issuer or the Corporation, as the case may be.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

The following is a summary of certain provisions of the Master Indenture, to which reference is made for a full and complete statement of its provisions.

Obligations

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. Such Obligations will be secured equally and ratably by the assignment and pledge to the Master Trustee of a security interest in all money and Investment Securities, if any, held from time to time by the Master Trustee in the funds and accounts established under the Master Indenture and in all Pledged Notes

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 (a) the date of the delivery of the Master Indenture, or (b) 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 Combined Group during such period, such calculations shall be made assuming that such Obligated Issuer became a member of the Combined 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. Further, each Obligated Issuer shall cause, to the extent permitted by law, its Restricted Affiliates to transfer to the Obligated Group such of their property as shall be necessary to enable the Obligated Group to meet all of its joint and several liability (determined without regard to the aggregate Maximum Guaranty Liability of the Obligated Issuers) in respect of all Outstanding Obligations, in the maximum amount permissible under the applicable fraudulent conveyance or similar laws.

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 by such Obligated Issuer pursuant to the Master Indenture; provided, however, that no Obligated Issuer shall be entitled to enforce or receive any payments arising out of, or based upon such right of subrogation until all Obligations shall have been paid in full and discharged.

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 (a) 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 (b) 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 of or interest on any Obligation (in which event this clause (b) shall cease to apply to such person at such time as such default shall be cured).

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

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 (a) the names and addresses of Holders of Obligations, and (b) any other information which may be necessary for the proper discharge of the Master Trustee's duties under the Master Indenture. The Obligations of any series may be transferred or exchanged in the manner specified in the Supplemental Indenture providing for the issuance thereof.

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 (a) if the applicable Supplemental Indenture provides for the making of deposits directly with the Master Trustee in respect of an Obligation, or (b) 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 (a) 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 (b) 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 Holders as provided in the Master Indenture. 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 (a) 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 (b) 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, as evidenced by an opinion of Counsel to that effect delivered to the Master Trustee;

(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.

Persons Becoming Obligated Issuers

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

First, such Person must execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Obligated Group Agent, containing (a) 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; (b) the agreement of such Person to consult with each other member of the Obligated Group prior to incurring any Obligations; and (c) such other restrictions on the ability of such Person to incur Obligations as may be imposed by the Obligated Group.

Second, each instrument executed and delivered to the Master Trustee as described in the preceding paragraph must 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 instrument delivered by the Person seeking to become a member of the Obligated Group has been duly authorized, executed and delivered by such Person and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, except as limited by then existing laws relating to bankruptcy and insolvency and other standard 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 must 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 must receive:

An Officer's Certificate from the Obligated Group Agent to the effect that (i) 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 (ii) either (A) if one dollar of Additional Indebtedness were incurred immediately following such Person's admission, the Combined Group would meet the test providing for the incurrence of Long-Term Indebtedness pursuant to the Master Indenture and described in (a)(1) or (2) under "- Additional Long Term Indebtedness" below (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 (B) such Person becoming a member of the Obligated Group will cure any "event of default" then in existence under the Master Indenture, or (C) 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.

Withdrawal from Obligated Group

No Obligated Issuer may withdraw from the Obligated Group unless:

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

(b) 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 receives an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Obligated Issuer'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;

(c) The Master Trustee receives 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 the Master Indenture, 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;

(d) The Master Trustee receives 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" thereunder; and

(e) The Obligated Group Agent receives an opinion of Counsel to such Person 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 will 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.

Conditions for Designation of Restricted Affiliates

Any Affiliate of an Obligated Issuer that satisfies the definition of "Restricted Affiliate" will become a Restricted Affiliate upon delivery to the Master Trustee of the following documents:

(a) an Officer's Certificate from the Obligated Group Agent to the effect that the Obligated Group Agent consents to such Person becoming a Restricted Affiliate;

(b) a written undertaking for the benefit of the Master Trustee duly authorized and executed by such Affiliate evidencing the agreement of such Affiliate (1) to observe and perform the obligations that the Obligated Group has covenanted to cause Restricted Affiliates to observe and perform under the Master Indenture, and (2) subject to any applicable legal restrictions relating to dispositions of assets by organizations described in Section 501(c)(3) of the Code, that upon the liquidation or dissolution of such Affiliate, all remaining assets thereof shall be transferred to an Obligated Issuer, a specified Obligated Issuer, or another Restricted Affiliate;

(c) evidence of appropriate action of the Governing Body of such Affiliate authorizing such undertaking;

(d) an opinion of Counsel to the effect that the conditions contained in the Master Indenture relating to designation of a Restricted Affiliate have been satisfied and an opinion of Counsel to the effect that the instrument described in subparagraph (b) above has been duly authorized, executed and delivered by such Person and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject only to and limited by the then existing law relating to bankruptcy and insolvency and other standard and customary legal exceptions; and

(e) an Officer's Certificate of the Obligated Group Agent to the effect that (1) 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 (2) either (i) if one dollar of Additional Indebtedness were incurred immediately following the designation of such Affiliate, the Combined Group would meet the test providing for the incurrence of Long-Term Indebtedness pursuant to the Master Indenture and described in (a)(1) or (2) under "- Additional Long Term Indebtedness" below, or (ii) such Person becoming a Restricted Affiliate will cure any "event of default" then in existence under the Master Indenture, or (iii) by reason of such status, the Projected Debt Service Coverage Ratio for each of the two Fiscal Years following such designation as a Restricted Affiliate will be greater than the Projected Debt Service Coverage Ratio for such Fiscal Years had such designation of such Person as a Restricted Affiliate not occurred.

Release of Restricted Affiliates

Any Person shall be released from its obligations and status as a Restricted Affiliate only upon the following conditions:

(a) The Master Trustee receives an Officer's Certificate from the Obligated Group Agent consenting to the release of such Person from its status as a Restricted Affiliate and certifying that either (1) if one dollar of Additional Indebtedness were incurred after giving effect to such release, the Obligated Group would meet the test providing for the incurrence of Long-Term Indebtedness pursuant to the Master Indenture and described in (a)(1) or (2) under "- Additional Long Term Indebtedness" below or (2) such release will cure any "event of default" then in existence under the Master Indenture, or (3) by reason of such release, 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 release not occurred.

(b) The Master Trustee receives an Officer's Certificate of the Person requesting such release stating that all conditions precedent provided for under the Master Indenture relating to the release of such Person as a Restricted Affiliate have been complied with and that, were such Person released as a Restricted Affiliate on the date of such Officer's Certificate, no "event of default" would then exist under the Master Indenture, nor to such officer's knowledge, would 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" thereunder.

(c) Upon compliance with the conditions described in subparagraphs (a) and (b) above, the Master Trustee will execute any documents reasonably requested by the released Person to evidence the termination of such Person's status as a Restricted Affiliate.

Short-Term Indebtedness

Each Obligated Issuer has agreed 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) (1) the principal amount of all Short-Term Indebtedness of the Combined 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, or

(2) 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 commencing July 1, 1991, the Combined Group reduces the aggregate principal amount of all Outstanding Short-Term Indebtedness described in (a)(1) above to less than 5% of the Total Net Operating Revenues for the immediately preceding Fiscal Year.

Additional Long-Term Indebtedness

Each Obligated Issuer has agreed 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 Combined Group, if prior to the incurrence thereof, there is delivered to the Master Trustee:

(1) 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 1.20; or

(2) (i) an Officer's Certificate of the Obligated Group Agent demonstrating that the Historical 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 1.10, and (ii) 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 clause (ii) 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 1.20.

The requirements described in (a)(2)(i) and (ii) above will be deemed satisfied if (A) 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, and (B) the Combined Group has generated Total Income Available for Debt Service in an amount which, in the opinion of such Consultant, the Combined Group could reasonably have generated given such laws and regulations during the period affected thereby.

(b) Completion Indebtedness of any member of the Combined Group without limit if there is delivered to the Master Trustee: (1) an Officer's Certificate of the applicable member of the Combined Group stating that at the time the original Long-Term Indebtedness for the Facilities to be completed was incurred, such Combined 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; (2) a statement of an Architect setting forth the amount estimated to be needed to complete the Facilities, and (3) an Officer's Certificate of such member of the Combined 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 Combined 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 (2).

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

(e) The conversion without limit of Long-Term Indebtedness of any member of the Combined Group that is convertible from one interest or payment mode to another interest or payment mode (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 Combined Group or Non-Recourse Indebtedness without limit of any member of the Combined Group;

(g) Indebtedness incurred in connection with a sale of accounts receivable with recourse by any member of the Combined 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 may not exceed the aggregate sales price of such accounts receivable received by such Combined Group member;

(h) Long-Term Indebtedness of any member of the Combined Group, the principal amount of which at the time incurred, together with the aggregate principal amount of all other Long-Term Indebtedness of the Combined 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 Combined 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 Combined Group will not exceed 66-2/3% of the Capitalization.

Guaranties

(a) Each Obligated Issuer has agreed 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.

(b) In the case of Guaranties of indebtedness that would, if such indebtedness were incurred by a member of the Combined Group, constitute Long-Term Indebtedness, the aggregate annual principal and interest payments on, and the principal amount of, the Guaranty will 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, the aggregate annual principal and interest payments on, and the principal amount of, the Guaranty will, 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 in which payment is made.

Limited Obligors

(a) Any Person may become a Limited Obligor upon delivery to the Master Trustee of the following:

(1) An Officer's Certificate from the Obligated Group Agent to the effect that the Obligated Group Agent consents to such Person becoming a Limited Obligor;

(2) An opinion of Counsel to the effect that the Pledged Note (i) has been duly authorized, executed and delivered by the Limited Obligor and (ii) constitutes the legal, valid and binding obligation of the Limited Obligor, enforceable in accordance with its terms, subject only to and limited by the then existing law relating to bankruptcy and insolvency and other customary and standard legal exceptions, and an opinion of Counsel to the applicable Obligated Issuer to the effect that the Pledged Note has been validly assigned by the applicable Obligated Issuer to the Master Trustee; and

(3) The duly executed Pledged Note made by such Person.

(b) Any Person may be released from its obligations and status as a Limited Obligor upon the following conditions:

(1) The Master Trustee receives an Officer's Certificate from the Obligated Group Agent consenting to the release of such Person from its status as a Limited Obligor and certifying that immediately after the release of such Person, no "event of default" then exists under the Master Indenture, nor to such officer's knowledge, would 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" thereunder; and

(2) The Master Trustee receives an Officer's Certificate from the Obligated Group Agent to the effect that either (i) after giving effect to such release, if one dollar of Additional Indebtedness were incurred, the Combined Group would meet the test providing for the incurrence of Long- Term Indebtedness pursuant to Section 4.2(a)(i) or (ii) of the Master Indenture, or (ii) by reason of such release, the Projected Debt Service Coverage Ratio for each of the two Fiscal Years immediately following such release will be greater then the Projected Debt Service Coverage Ratio for such Fiscal Years had such release not occurred, or (iii) such Person has become a member of the Combined Group.

(c) Upon compliance with the conditions described in subparagraph (b) above, the Master Trustee will surrender the Pledged Note to the released Person, duly marked "cancelled" and will execute such other documents reasonably requested by such Person to evidence the termination of such Person's status as a Limited Obligor.

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 will be assumed, at the discretion of the Obligated Group Agent, as the case may be, that (a)the interest rate on Variable Rate Indebtedness is equal to that rate derived from the Bond Index and (b) the principal of Balloon Indebtedness is amortized:

(1) from the date of calculation thereof over a term of thirty (30) years with level annual debt service payments at an assumed interest rate equal to the Bond Index; or

(2) 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

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

(4) 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 have covenanted that it will maintain, or cause to be maintained, and will require each of its Restricted Affiliates to 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 or Restricted Affiliate is a health care institution) professional liability or medical malpractice insurance. 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 three years (such report to be filed as soon as practicable but in no event later than five months after the end of the applicable third Fiscal Year). Each Obligated Issuer will follow, and will require each of its Restricted Affiliates to 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 described above, the Combined Group, or any member thereof, may self-insure any of the required coverages (or a portion thereof), provided 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 Combined Group elects to self-insure in lieu of maintaining medical liability and malpractice insurance, a report of an Insurance Consultant must be filed with the Master Trustee annually stating that such Insurance Consultant has reviewed the self-insurance program and that the self-insured Combined 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 Combined Group with a Value in excess of five percent (5%) of the Value of all Property of the Combined Group, the affected Combined Group member or the Obligated Group Agent will exercise its best efforts to recover any applicable insurance. Such proceeds will be paid to the Obligated Group Agent for the payment or reimbursement of reasonable expenses of obtaining the recovery. The Obligated Group Agent will 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 Combined Group member will apply the Net Proceeds for any lawful corporate purpose as such Combined Group member determines, if the Obligated Group Agent first delivers 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 such an Officer's Certificate, the affected Combined Group member must 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 Combined 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 determines.

Any Net Proceeds remaining after compliance by the affected Combined Group member and the Obligated Group Agent with the provisions of the Master Indenture described in the immediately preceding paragraph will be transferred by the Obligated Group Agent to the Master Trustee and applied to the redemption of the Outstanding Obligations in such order of maturity or maturities or proportions as the Obligated Group Agent determines.

In the event of a taking by eminent domain of all or any part of the Facilities of the Combined Group with a Value in excess of five percent (5%) of the Value of all Property of the Combined Group, the affected Combined Group member or the Obligated Group Agent will exercise its best efforts to recover any applicable proceeds. Such proceeds shall be paid to the Obligated Group Agent. The Obligated Group Agent will 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 as described in the two immediately preceding paragraphs.

Certain Covenants of the Obligated Issuers

Each Obligated Issuer has covenanted (and will cause each of its Restricted Affiliates to comply with such 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 or Restricted Affiliate thereof 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 (subject to certain exceptions set forth in the Master Indenture), and not to discriminate on any legally impermissible basis.

In addition, each Obligated Issuer has covenanted not to merge with or consolidate with any other Person not a member of the Combined Group or sell or convey all or substantially all of its assets to any Person not a member of the Combined Group unless: (a) the successor corporation (if other than the Obligated Issuer)is a Person organized and existing under the laws of the United States of America or a state thereof and such Person becomes an Obligated Issuer and expressly assumes 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 must receive 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, (i) 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 (ii) either (A) 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 Section 4.2(a)(i) or (ii) of the Master Indenture (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 (B) 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.

In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation will 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 may 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 has agreed that it will not, nor will it permit any of its Restricted Affiliates to, sell, lease or otherwise dispose of any Property, except for sales, leases or other dispositions of Property:

(a) To another member of the Combined 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 the 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 that Property transferred as described in this subparagraph (c) in the then-current Fiscal Year by all Obligated Issuers and Restricted Affiliates does not exceed 10% of the Value of all Property of the Combined 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 Combined Group would meet the test providing for the incurrence of Long-Term Indebtedness pursuant to Section 4.2(a)(i) or (ii) of the Master Indenture 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 by the Master Indenture;

(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) Certain Property specified in the Master Indenture, which Property may be transferred at any time, at the option of the Obligated Group Agent, notwithstanding anything to the contrary contained in the Master Indenture as described above.

Disposition of Restricted Affiliates

No Obligated Group Member may:

(a) Permit any of its Restricted Affiliates to issue or sell any shares of stock of such Restricted Affiliate to any Person (other than members of the Combined Group and except for director's qualifying shares), except for the purpose of paying a common stock dividend on, or splitting the common stock of such Restricted Affiliate; or

(b) Sell, transfer, or otherwise dispose of any shares of stock (except to members of the Combined Group) of any Restricted Affiliates or permit any of its Restricted Affiliates to sell, transfer, or otherwise dispose of (except to members of the Combined Group) any shares of stock of any other Restricted Affiliate, unless all shares of stock of such Restricted Affiliate owned by the members of the Combined Group are sold, transferred or disposed of and either (1) after giving effect to such disposition if one dollar of Additional Indebtedness were incurred, the Combined Group would meet the test providing for the incurrence of Long-Term Indebtedness pursuant to Section 4.2(a)(i) or (ii) of the Master Indenture, or (2) the Projected Debt Service Coverage Ratio for each of the two Fiscal Years immediately following such disposition will be greater than the Projected Debt Service Coverage Ratio for such Fiscal Years had such disposition not occurred; or

(c) Permit any of the Restricted Affiliates to consolidate with or merge into any other corporation or to transfer all or substantially all of its assets as an entirety to another Person, unless the successor formed by such consolidation or into which the Restricted Affiliate is merged or the Person which acquires by conveyance or transfer the assets of the Restricted Affiliate substantially as an entirety is a member of the Combined Group or, if such successor or the transferee is not a member of the Combined Group, either (1) after giving effect to such consolidation, merger or transfer 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 Section 4.2(a)(i) or (ii) of the Master Indenture, or (2) the Projected Debt Service Coverage Ratio for each of the two Fiscal Years immediately following such consolidation, merger or transfer will be greater than the Projected Debt Service Coverage Ratio for such Fiscal Years had such consolidation, merger or transfer not occurred.

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

The Obligated Group Agent has covenanted that it will:

(a) As soon as practicable but in no event later than five 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, (1) a combined or consolidated revenue and expense statement of the Corporation, each other Obligated Issuer and each Restricted Affiliate, for such Fiscal Year and (2) a combined or consolidated balance sheet of the Corporation, each other Obligated Issuer and each Restricted Affiliate 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 five months after the end of each Fiscal Year, file with the Master Trustee (1) a written statement of the Accountant whose report accompanies the financial statements referred to in (a) above stating the Historical Debt Service Coverage Ratio and the Historical Maximum Annual Debt Service Coverage Ratio for such Fiscal Year, and (2) an Officer's Certificate of the Obligated Group Agent stating that all insurance required under 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.

(c) If an "event of default" has occurred and is continuing under the Master Indenture, (1) 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 (2) 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.

Rates and Charges

Each Obligated Issuer has covenanted and agreed that it will, and cause each of its Restricted Affiliated to, 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, 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 a ratio of Total Income Available For Debt Service to Maximum Annual Debt Service at least equal to 1.10:1. Each Obligated Issuer has further covenanted and agreed that it will from time to time as often as necessary and to the extent permitted by law, revise, and cause each of its Restricted Affiliates to 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 herein.

If in any Fiscal Year the Historical Maximum Annual Debt Service Coverage Ratio of the Combined Group is less than 1.10:1, the Master Trustee will 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 Combined 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 1.10:1.

A copy of the Consultant's report and recommendations, if any, will be filed with each Obligated Issuer, the Master Trustee, each Related Issuer and each Related Bond Trustee. Each Obligated Issuer must follow, and cause each of its Restricted Affiliates to 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. The provision of the Master Indenture herein described will not be construed to prohibit any Obligated Issuer or Restricted Affiliate from serving indigent patients to the extent required for such Obligated Issuer or Restricted Affiliate 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 Combined Group from satisfying the other requirements of the Master Indenture herein described. So long as the Obligated Group retains a Consultant and follows such Consultant's recommendations to the extent permitted by law, the provisions of the Master Indenture herein described will be deemed to have been complied with even if such ratio for any subsequent Fiscal Year is below 1:10:1; provided, however, that in no event may the Historical Maximum Annual Debt Service Coverage Ratio for any year be less than 1:00:1.

The foregoing provisions of the Master Indenture notwithstanding, if in any Fiscal Year the Historical Maximum Annual Debt Service Coverage Ratio of the Obligated Group is less than 1.10:1, the Master Trustee will not be obligated to require the Obligated Group to retain a Consultant to make such recommendations if: (a) (1) there is filed with the Master Trustee (who will provide a copy to each Related Bond Trustee and Related Issuer) a written report addressed to them of a Consultant (which Consultant and report, including without limitation the scope, form, substance and other aspects of such report, are acceptable to the Master Trustee) which contains an opinion of such Consultant that applicable laws or regulations have prevented the Combined Group from generating Income Available for Debt Service during such Fiscal Year in an amount sufficient to attain a Historical Maximum Annual Debt Service Coverage Ratio of at least 1.10:1 and, if requested by the Master Trustee, such report is accompanied by a concurring opinion of Counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) as to any conclusions of law supporting the opinion of such Consultant; and (2) the report of such Consultant indicates that the rates charged by the Obligated Group are such that, in the opinion of the Consultant, the Obligated Group has generated the maximum amount of revenues reasonably practicable given such laws or regulations; or (b) there is filed with the Master Trustee (who will provide a copy to each Related Bond Trustee and Related Issuer) an Officer's Certificate of the Obligated Group Agent stating that a Consultant's report described in the second paragraph under the heading "- Rates and Charges" has been filed previously, the facts and assumptions therein have not materially changed and the Obligated Group is continuing to use its best efforts to implement the Consultant's recommendations.

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 Obligation 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 will 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 must 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 done, taken or remedied, within such 30-day period, no "event of default" will be deemed to have occurred or to exist if, and so long as, the defaulting Obligated Issuer commences such observance or performance within such 30-day period and diligently and continuously prosecutes the same to completion; or

(c) (1) 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 Combined Group for the immediately preceding Fiscal Year, whether such Indebtedness now exists or is created after the date of the Master Indenture and any grace period with respect thereto expires, or (2) any "event of default" as defined in any Related Financing Documents under which any such Indebtedness may be issued, secured or evidenced occurs, 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 (1) the Obligated Issuer commences proceedings to contest the existence or payment of such Indebtedness, and (2) in the absence of such contest, neither the pledge and security interest created under the Master Indenture nor any Property of the Combined 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 as provided in the Master Indenture.

Upon the occurrence of an "event of default" under the Master Indenture, 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 will be required to make such a declaration (1) if an "event of default" has occurred as described in subparagraph (a) above, (2) if an "event of default" has occurred as described in subparagraph (b) above as a result of a default under the Related Financing Documents for any Obligations, if the Related Financing Documents permit the Holders of such Obligations to declare (or to request the Master Trustee to declare) such Obligations to be immediately due and payable and if the Master Trustee is requested to make such a declaration by the Holders of not less than 25% in aggregate principal amount of such Obligations then Outstanding or such greater percentage as may be required under the Related Financing Documents, or (3) 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.

Any acceleration of the principal of the Obligations as described in the preceding paragraph will be subject to the condition that if, at any time after the principal of all Outstanding Obligations has been accelerated, and before any judgment or decree for the payment of the moneys due has been obtained or entered: (a) one or more Obligated Issuers deposits with the Master Trustee an aggregate sum sufficient to pay (1) 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, (2) all amounts due under each Indenture Guaranty other than by reason of acceleration, (3) all sums due under any Obligations other than Notes and Indenture Guaranties, other than by reason of acceleration, and (4) the expenses and fees of the Master Trustee; and (b) 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, are remedied, then and in every such case, the Master Trustee will, if requested by the Holders of 25% in aggregate principal amount of all Obligations then Outstanding, waive all "events of default" under the Master Indenture and rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment will extend to or effect any subsequent "event of default" under the Master Indenture.

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 whole 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 Group wherever situated.

If there are pending proceedings for the bankruptcy or for the reorganization of any Obligated Issuer, or if a receiver or trustee is appointed for its Property, the Master Trustee will 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 is a party) the Master Trustee will be held to represent all the Holders of Obligations, and it will 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" under the Master Indenture 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 has become or has 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 will 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 as described in this subparagraph (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 has 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 have made written request upon the Master Trustee to institute such action, suit or proceeding in its own name as Master Trustee and 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, neglects or refuses to institute any such action, suit or proceeding and no direction inconsistent with such written request has 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 will 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 will 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 in the Master Indenture and more fully set forth therein will be entitled in such suit, action or proceeding to such amounts as may 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, may 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) will 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 a majority in aggregate principal amount of Obligations then Outstanding 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 has 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, by a responsible officer or officers of the Master Trustee, determines that the proceedings so directed would be illegal or involve it in personal liability, and provided further that nothing in the Master Indenture will impair the right of the Master Trustee in its discretion to take any action deemed proper by the Master Trustee and which is not inconsistent with such direction by the Holders. The Master Trustee may require, at its option, that prior to taking any action under the Master Indenture, it be provided indemnity with respect to the taking of such action satisfactory to the Master Trustee.

Notice of Default

The Master Trustee will, within 10 days after the occurrence of an "event of default" under the Master Indenture known to the Master Trustee, mail to all Holders of Obligations, as the names and addresses of such Holders appear upon the books maintained by the Master Trustee, notice of such "event of default" under the Master Indenture known to the Master Trustee, unless such "event of default" has been cured before the giving of such notice; provided that, except in the case of a payment default on any Obligation, the Master Trustee will 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 will 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" under the Master Indenture and after the curing or waiving of all such "events of default" which may have occurred, the Master Trustee has undertaken to perform only those duties specifically set forth in the Master Indenture. If such an "event of default" occurs and is not cured or waived, the Master Trustee will exercise the rights and powers vested in it by the Master Indenture, and use the same degree of care and skill in their exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

No provision of the Master Indenture will 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:

(1) the Master Trustee will 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 proved that the Master Trustee was grossly negligent in ascertaining the pertinent facts, other than facts which the Master Trustee in not required to investigate as provided in the Master Indenture; and

(2) the Master Trustee will 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 described in the immediately preceding paragraphs:

(a) The Master Trustee may rely and will be protected in acting or refraining from acting upon various papers or documents believed by it in good faith 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) will 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 will be full and complete authorization and protection. The Master Trustee will 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 is 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) will be taken as the statements of the Obligated Issuers, 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 is not accountable for the use or application by any Obligated Issuer 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 does 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 will eliminate the conflict or resign as Master Trustee.

Each Obligated Issuer will pay, and will be jointly and severally liable to pay, to the Master Trustee reasonable compensation and reimbursement for all reasonable expenses, disbursement and advances incurred or made by the Master Trustee in connection with the acceptance or administration of its trusts under the Master Indenture. Each Obligated Issuer will indemnify, defend and will 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 herein will 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 will have an express first and prior lien on any moneys or Investment Securities on deposit in any funds established under the Master Indenture as security for the payment of all such obligations.

Subject to the provisions of the Master Indenture described in the first paragraph under "- 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 willful misconduct or gross negligence on the part of the Master Trustee, any such Officer's Certificate will 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 will 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 provided in 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 and such other notice required by the Master Indenture, 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 will promptly give notice of any removal as described in 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, must accept such appointment in writing, and, without further act, will 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, must 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 is a party, or any corporation to which substantially all the business of the Master Trustee may be transferred, will, subject to the provisions of the Master Indenture described in the immediately preceding paragraph, be the Master Trustee under the Master Indenture without further act.

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

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 Maser Indenture or adversely affect the Holders of any particular Obligations or 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 otherwise provided therein), (h) reflect a change in applicable law, and (i) modify, amend, change or remove any covenant, agreement, term or provision of the Master Indenture (other than a modification of the type described in the immediately following paragraph hereof requiring the unanimous written consent of the Holders), provided that either of the following conditions is satisfied prior to the effective date of such Supplemental Indenture: (x) if at the time of the proposed amendment, the Obligations or any series of Related Bonds are rated by one or more Rating Agencies, written notice of the substance of such proposed amendment is given to such Rating Agencies by the Obligated Group Agent not fewer than 30 days prior to the date such amendment is to take effect, and the Obligated Group Agent provides evidence satisfactory to the Master Trustee that the ratings on the Obligations or any series of Related Bonds will not be lowered or withdrawn by such Rating Agencies as a result of such proposed amendment; or (y) a Consultant's report is delivered to the Master Trustee prior to the date such amendment is to take effect, to the effect that the proposed amendment is consistent with then current industry standards for comparable institutions and demonstrating either that (1) the Projected Debt Service Coverage Ratio for the full Fiscal Year immediately after the effective date of such proposed amendment is not less than 1.20, assuming the maximum implementation (or such lower implementation certified to the Master Trustee by the Obligated Group Agent as being a reasonable basis for assumption) by the Obligated Group of the proposed amendment; or (2) if the proposed amendment is to a provision of the Master Indenture that contains a quantitative restriction or covenant, the average of the Projected Debt Service Coverage Ratio for the two full Fiscal Years immediately after the effective date of such proposed amendment or supplement will be greater than the average of the Debt Service Coverage Ratio for such period had the proposed amendment not been implemented, assuming the maximum implementation (or such lower implementation certified to the Master Trustee by the Obligated Group Agent as being a reasonable basis for assumption) of the proposed amendment; or (3) (A) the average of the Projected Debt Service Coverage Ratio for the two full Fiscal Years immediately after the effective date of such proposed amendment will not be less than 1.10, and (B) the average of the Projected Debt Service Coverage Ratios for the two full Fiscal Years immediately after the effective date of such proposed amendment will not be more than 35% lower than the average of the Debt Service Coverage Ratios had the proposed amendment not been implemented, assuming with respect to the projections made under (A) and (B) the maximum implementation (or such lower implementation certified to the Master Trustee by the Obligated Group Agent as being a reasonable basis for assumption) of the proposed amendment if the proposed amendment is to a provision of the Master Indenture that contains a quantitative restriction or covenant.

Each Obligated Issuer, when authorized by its Governing Body, and the Master Trustee may, with the consent of the Holders of a majority in aggregate principal amount of Obligations then Outstanding, otherwise amend or supplement the Master Indenture, subject to the provisions contained in the Master Indenture; provided, however, that (a) without the consent of the Holders of all Obligations whose Obligations are proposed to be modified, no such Supplemental Indenture may 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 or Obligations over any other Obligation or Obligations, and (b) without the consent of the Holders of all Obligations then Outstanding, no such Supplemental Indenture may reduce the aforesaid percentage or affected class of Obligations, the Holders of which are required to consent to any such Supplemental Indenture.

Effect of Supplemental Indenture

Upon the execution of any Supplemental Indenture, the Master Indenture will 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 will 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 will be deemed to be part of the terms and conditions of the Master Indenture.

Immunity of Incorporators, Members, Officers and Members of Governing Body

No recourse under or upon any obligation, covenant or agreement of the Master Indenture, or of any Obligations issued under the Master Indenture, or for any claim based thereon or otherwise in respect thereof, may be had against any incorporator, member, officer or member of the Governing Body, as such, past, present or future, of any Obligated Issuer or of any successor corporation, either directly or through such Obligated Issuer, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise.

Immunity of Officers, Employees and Directors of the Master Trustee

No recourse may be had by the Obligated Group, the Issuer or any Holder for any claim based upon the Master Indenture or any Obligation issued thereunder against any director, officer or employee of the Master Trustee unless such claim is based on bad faith, fraud, deceit or other willful misconduct of such Person or the gross negligence of such Person.

Satisfaction and Discharge of Indenture

If the Master Trustee receives: (a) an amount which is (1) in the form of (i) cash, or (ii) Government Obligations, and (2) in a principal amount sufficient, as determined in the sole and absolute discretion of the Master Trustee, 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; (c) an amount sufficient, as determined in the sole and absolute discretion of the Master Trustee, to pay or provide for the payment of all other sums payable under the Master Indenture by the Obligated Issuers or any thereof; and (d) a verification report of an independent nationally recognized certified public accounting firm that the principal and interest becoming due on Government Obligations held by the Master Trustee after such transaction and any other moneys available therefor will provide the Master Trustee with moneys which at all times will be sufficient to pay the principal, premium, if any, and interest on the outstanding Obligations, then the Master Indenture will cease to be of further effect, and the Master Trustee, on demand of the Obligated Group Agent, will 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 (or a portion thereof) at or prior to maturity, and the Obligation (or portion thereof) so provided for will 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 will, upon surrender to the Master Trustee for cancellation, no longer be deemed Outstanding under the Master Indenture.

Fifth Supplemental Master Indenture, Sixth Supplemental Master Indenture; and Eighth Supplemental Master Indenture

The Fifth Supplemental Master Indenture, the Sixth Supplemental Master Indenture and Eighth Supplemental Master Indenture contain terms and provisions in addition to those described above that apply only so long as the Series 2003 Obligation, the Series 2005 Obligations and the Series 2006C Obligation, respectively, remain Outstanding.

SUMMARY OF CERTAIN PROVISIONS OF THE 2011 BOND INDENTURE

The 2011 Bond Indenture contains various covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the 2011 Bond Indenture for a full and complete statement of its provisions.

Payment of Principal, Premium, if any, and Interest

The Issuer has covenanted that it will promptly pay or cause to be paid the principal of, premium, if any, and interest on every Series 2011 Bond issued under the 2011 Bond Indenture at the place, on the dates, and in the manner provided therein and in said Series 2011 Bonds according to the true intent and meaning thereof, but solely from the amounts pledged therefor. Neither the Issuer, the State, nor any political subdivision of the State will in any event be liable for the payment of the principal of, premium, if any, or interest on any of the Series 2011 Bonds or for the performance of any pledge, obligation or agreement undertaken by the Issuer except to the extent that the moneys pledged in the 2011 Bond Indenture are sufficient therefor. No Owner of any Series 2011 Bond has the right to compel any exercise of taxing power of the State or any political subdivision thereof to pay the Series 2011 Bonds or the interest thereon, and the Series 2011 Bonds do not constitute an indebtedness of the Issuer, the State or any political subdivision of the State, or a loan of credit of any of the foregoing within the meaning of any constitutional or statutory provision.

Revenues and Funds

Bond Fund. The 2011 Bond Indenture creates and establishes with the Bond Trustee a trust fund to be designated "The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee - Bond Fund, Wellmont Health System," which will be used to pay when due the principal of, premium, if any, and interest on the Series 2011 Bonds. The Bond Trustee will make a deposit from the proceeds of the Series 2011 Bonds representing accrued interest on the Series 2011 Bonds in the Costs of Issuance Fund on the date of issuance of the Series 2011 Bonds, as described under "Sources and Uses of Funds" in this Official Statement. There will be deposited into the Bond Fund from time to time, all moneys received by the Bond Trustee under and pursuant to any of the provisions of the 2011 Bond Indenture, the Loan Agreement, the Series 2011 Obligation or otherwise which are required to be or which are accompanied by directions that such moneys are to be paid into the Bond Fund. Except as otherwise specifically provided in the 2011 Bond Indenture, moneys in the Bond Fund will be used solely for the payment of the principal of, premium, if any, and interest on the Series 2011 Bonds and for the redemption of the Series 2011 Bonds prior to maturity.

Costs of Issuance Fund. The Trustee will make a deposit from the proceeds of the Series 2011 Bonds in the Costs of Issuance Fund on the date of issuance of the Series 2011 Bonds. Amounts in the Costs of Issuance Fund will be disbursed by the Bond Trustee to pay Costs of Issuance upon receipt of a Written Request by the Corporation which states the amount to be paid, the payee and the purpose for such payment. Upon the receipt of Written Request from the Corporation or the date that is 120 days following the date of issuance of the Series 2011 Bonds, whichever date is sooner, the Bond Trustee will transfer amounts remaining in the Costs of Issuance Fund to the Bond Fund to be applied as provided in the 2011 Bond Indenture.

Nonpresentment of Bonds. If any Series 2011 Bond is not presented for payment when the principal thereof becomes due, either at maturity, or at the date fixed for redemption thereof, or otherwise, if moneys sufficient to pay any such Series 2011 Bond have been deposited with the Bond Trustee for the benefit of the Owner thereof, all liability of the Issuer to the Owner thereof for the payment of such Series 2011 Bond will forthwith cease, determine and be completely discharged, and thereupon it will be the duty of the Bond Trustee to hold such funds, uninvested or invested in Government Obligations maturing overnight, but in any event without liability for interest thereon, for the benefit of the Owner of such Series 2011 Bond, to which funds the Owner will thereafter be restricted exclusively for any claim of whatever nature on its part under the 2011 Bond Indenture with respect to such Series 2011 Bond.

Any moneys so deposited with and held by the Bond Trustee not so applied to the payment of Series 2011 Bonds within two years after the date on which the same became due will be repaid by the Bond Trustee to the Corporation upon written direction of a Corporation Representative, and thereafter Owners of Series 2011 Bonds will be entitled to look only to the Corporation for payment, and then to the extent of the amount so repaid, and all liability of the Bond Trustee with respect to such money will thereupon cease, and the Corporation will not be liable for any interest thereon and will not be regarded as a trustee of such money.

Moneys to be Held in Trust. All moneys required to be deposited with or paid to the Bond Trustee for the account of any fund or account referred to in any provision of the 2011 Bond Indenture or the Loan Agreement will be held by the Bond Trustee in trust, and, while held by the Bond Trustee, will constitute part of the Trust Estate and be subject to the lien and security interest created thereby, except as otherwise specifically provided in the 2011 Bond Indenture.

Rebate Fund. The 2011 Bond Indenture creates and establishes with the Bond Trustee a trust fund to be held in trust to be designated "The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee Rebate Fund Wellmont Health System." The Bond Trustee will make information regarding the Series 2011 Bonds and the investments under the 2011 Bond Indenture available to the Corporation upon written request, will make deposits to and disbursements from the Rebate Fund in accordance with the directions received from the Corporation or the Corporation Representative, will invest moneys in the Rebate Fund pursuant to said directions and will deposit income from such investments pursuant to said directions, and will make payments to the United States of America in accordance with directions received from the Corporation.

Notwithstanding any provision of the 2011 Bond Indenture to the contrary, the Bond Trustee will not be liable or responsible for any calculation or determination which may be required in connection with or for the purpose of complying with Section 148 of the Code or any applicable Treasury regulation (the "Arbitrage Rules"), including, without limitation, the calculation of amounts required to be paid to the United States under the provisions of the Arbitrage Rules, the maximum amount which may be invested in "nonpurpose obligations" as defined in the Code and the fair market value of any investment made thereunder, it being understood and agreed that the sole obligation of the Bond Trustee with respect to investments of funds under the 2011 Bond Indenture will be to invest the moneys received by the Bond Trustee pursuant to the written instructions of the Corporation Representative given in accordance with the 2011 Bond Indenture and as described under "- Investment of Moneys" below. The Bond Trustee will have no responsibility for determining whether or not the investments made pursuant to the direction of the Corporation Representative or any of the instructions received by the Bond Trustee as described herein comply with the requirements of the Arbitrage Rules and will have no responsibility for monitoring the obligations of the Corporation or the Issuer for compliance with the provisions of the 2011 Bond Indenture with respect to the Arbitrage Rules.

Investment of Moneys

Any moneys held as a part of the Costs of Issuance Fund, upon a Written Request of the Corporation, will be invested or reinvested by the Bond Trustee in Investment Securities maturing at such time or times so that the Bond Trustee will be able to pay the costs of issuance of the Bonds from time to time upon the Written Request of the Corporation. The Bond Trustee will not be obligated to invest any moneys held by it in the Costs of Issuance Fund except as directed in writing by the Corporation, but will inform the Corporation as soon as practicable of any amounts that remain uninvested but are eligible for investment in Investment Securities.

Any moneys held as a part of the Bond Fund or the Rebate Fund will be invested or reinvested by the Bond Trustee in Government Obligations with such maturities as required in order to assure full and timely payment of amounts required to be paid from such funds, which maturities, in the case of the Bond Fund, may extend no more than 30 days from the date of acquisition thereof.

The Bond Trustee will sell or present for redemption any investments so purchased whenever necessary to provide moneys to meet any payment pursuant to the Bond Indenture and the Bond Trustee will not be liable or responsible for any loss resulting from such investments. The Bond Trustee will not be responsible for any reduction of the value of any investments made in accordance with the Written Request of the Corporation or any losses incurred in the sale of such investments.

The Bond Trustee may make any and all such investments through its own bond or investment department or the bond or investment department of any bank or trust company under common control with the Bond Trustee, and may charge and collect its and/or pay its customary fees and expenses in connection therewith. The Bond Trustee will not be liable for any depreciation in the value of any investment made pursuant to the 2011 Bond Indenture or for any loss arising from any such investment, or any determination that the Series 2011 Bonds are "arbitrage bonds" as a result of any such investments. All such investments will at all times be a part of the fund or account from which the moneys used to acquire such investments have come and all income and profits on such investments will be credited to, and losses thereon will be charged against, such fund. All investments under the 2011 Bond Indenture will be registered in the name of the Bond Trustee, as Bond Trustee under the 2011 Bond Indenture, and will be held by or under the control of the Bond Trustee. The Bond Trustee may conclusively rely upon the Corporation's written instructions as to both the suitability and legality of all directed investments under the Bond Indenture. Ratings of investment shall be determined at the time of purchase of such investments and without regard to ratings subcategories. The Bond Trustee shall have no responsibility to monitor the ratings of investments after the initial purchase of such investments. In the absence of written investment instructions from the Corporation, the Bond Trustee shall not be responsible or liable for keeping the moneys held by it under the Bond Indenture fully invested. Confirmations of investments are not required to be issued by the Bond Trustee for each month in which a monthly statement is rendered.

Notwithstanding any other provisions of the 2011 Bond Indenture described herein, all investment earnings will be subject to the provisions of the Tax Compliance Agreement and Non-Arbitrage Certificate. The Issuer has covenanted and certified to and for the benefit of the Owners of the Series 2011 Bonds from time to time Outstanding that so long as any of the Series 2011 Bonds remain Outstanding, the Issuer will not direct that moneys on deposit in any fund or account in connection with the Series 2011 Bonds (whether or not such moneys were derived from the proceeds of the sale of the Series 2011 Bonds or from any other sources), be used in a manner which will cause the Series 2011 Bonds to be classified as "arbitrage bonds" within the meaning of Section 148 of the Code. Pursuant to such covenants, the Issuer has obligated itself to comply throughout the term of the Series 2011 Bonds with any request of the Corporation regarding the requirements of Section 148 of the Code, and any regulations promulgated thereunder. Notwithstanding any provision of the 2011 Bond Indenture to the contrary, the Bond Trustee will not be liable or responsible for any calculation or determination which may be required in connection with or for the purpose of complying with Section 148 of the Code including, without limitation, the calculation of amounts required to be paid to the United States under the provisions of such Section 148 of the Code, and will be entitled to rely on the directions or the absence of directions of the Corporation and any rebate analyst.

Discharge of Indenture

If the Issuer pays or causes to be paid, in accordance with the provisions of the 2011 Bond Indenture, to the Owners of the Series 2011 Bonds, the principal of, premium, if any, and interest due or to become due thereon at the times and in the manner stipulated therein, and if the Issuer is not then in default in any of the other covenants and promises in the Series 2011 Bonds and in the 2011 Bond Indenture expressed as to be kept, performed and observed by it or on its part, and if the Issuer pays or causes to be paid to the Bond Trustee all sums of money due or to become due according to the provisions thereof, then the presents and the estate and rights granted by the 2011 Bond Indenture will cease, determine and be void, whereupon the Bond Trustee will cancel and discharge the lien of the 2011 Bond Indenture, and execute and deliver to the Issuer such instruments in writing as are required to release the lien thereof and re-convey, release, assign and deliver to the Issuer any and all of the estate, right, title and interest in and to any and all rights or property conveyed, assigned or pledged to the Bond Trustee or otherwise subject to the lien of the 2011 Bond Indenture, except (i) cash held by the Bond Trustee for the payment of the principal of, premium, if any, or interest on particular Series 2011 Bonds and (ii) amounts in the Rebate Fund required to be paid to the United States.

Defeasance of Bonds

Any Series 2011 Bond will be deemed to be paid within the meaning of the 2011 Bond Indenture and for all purposes thereof when (a) payment of the principal of and premium, if any, on such Series 2011 Bond, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption) either (i) have been made or caused to be made in accordance with the terms thereof, or (ii) have been provided for by irrevocably depositing with the Bond Trustee, in trust and irrevocably set aside exclusively for such payment, (1) moneys sufficient to make such payment or (2) Government Obligations maturing as to principal and interest in such amounts and at such times as will insure, without further investment or reinvestment thereof, in the opinion of an independent certified public accounting firm of national reputation (a copy of which opinion must be furnished to the rating agency then providing the rating borne by the Series 2011 Bonds, if any), the availability of sufficient moneys to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Bond Trustee and the Issuer pertaining to the Series 2011 Bonds with respect to which such deposit is made, have been paid or the payment thereof provided for to the satisfaction of the Bond Trustee. At such time as a Series 2011 Bond is deemed to be paid under the 2011 Bond Indenture, as aforesaid, such Series 2011 Bond will no longer be secured by or entitled to the benefits of the 2011 Bond Indenture, except for the purposes of any such payment from such moneys or Government Obligations.

Notwithstanding the foregoing, no deposit described in clause (a)(ii) of the immediately preceding paragraph will be deemed payment of such Series 2011 Bonds as aforesaid until (a) proper notice of redemption of such Series 2011 Bonds has been previously given in accordance with the 2011 Bond Indenture, or if said Series 2011 Bonds are not by their terms subject to redemption within the next 60 days, until the Corporation has given the Bond Trustee, in form satisfactory to the Bond Trustee, irrevocable instructions to notify, as soon as practicable, the Owners of the Series 2011 Bonds that the deposit described in such clause (a)(ii) above has been made with the Bond Trustee and that said Series 2011 Bonds are deemed to have been paid in accordance with the 2011 Bond Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and the applicable redemption premium, if any, on said Series 2011 Bonds, plus interest thereon to the due date thereof; or (b) the maturity of such Series 2011 Bonds.

Before accepting or using any moneys to be deposited as described herein, the Bond Trustee may require that the Corporation furnish to it (i) an opinion of Bond Counsel to the effect that such deposit will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2011 Bonds and that all conditions of the 2011 Bond Indenture described herein have been satisfied, and (ii) a certificate of an independent certified public accountant to the effect that such deposit will be sufficient to defease the Series 2011 Bonds as provided in the 2011 Bond Indenture. The Bond Trustee will be fully protected in relying upon such Bond Counsel opinion and/or accountant's certificate in accepting or using any moneys deposited as described herein.

All moneys so deposited with the Bond Trustee may also be invested and reinvested, at the written direction of the Corporation, in noncallable Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Government Obligations in the hands of the Bond Trustee as described herein which is not required for the payment of the Series 2011 Bonds and interest and premium, if any, thereon with respect to which such moneys have been so deposited will be deposited in the Bond Fund as and when realized and collected for use and application as are other moneys deposited in the Bond Fund; provided that unless the opinion of Bond Counsel specifically permits any such reinvestment, the Corporation will furnish to the Bond Trustee an opinion of Bond Counsel to the effect that such reinvestment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2011 Bonds.

The Issuer has covenanted in the 2011 Bond Indenture that no deposit will knowingly be made or accepted and no use knowingly made of any such deposit which would cause the Series 2011 Bonds to be treated as arbitrage bonds within the meaning of Section 148 of the Code.

Notwithstanding any provision of any other article of the 2011 Bond Indenture which may be contrary to the provisions described herein, all moneys or Government Obligations so set aside and held in trust for the payment of Series 2011 Bonds (including interest and premium thereon, if any) will be applied to and used solely for the payment of the particular Series 2011 Bonds (including the interest and premium thereon, if any) with respect to which such moneys or Government Obligations have been so set aside in trust.

Defaults and Remedies

Defaults. The occurrence of any of the following events constitutes a "Default" under the 2011 Bond Indenture:

(a) Default in the due and punctual payment of interest on any Series 2011 Bond;

(b) Default in the due and punctual payment of the principal of or premium, if any, on any Series 2011 Bond, whether at the stated maturity thereof, or upon proceedings for redemption thereof, or upon the maturity thereof by declaration;

(c) The occurrence of a Default under the Loan Agreement;

(d) An event of default as described in subparagraph (a) under "Summary of Certain Provisions of the Master Indenture - Defaults and Remedies" above occurs and is continuing from and after the date on which the Master Trustee is entitled under the Master Indenture to declare any Obligation immediately due and payable, or the Master Trustee declares any Obligation immediately due and payable; and

(e) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Issuer contained in the 2011 Bond Indenture or in the Series 2011 Bonds contained and failure to remedy the same after notice thereof pursuant to the provisions of the 2011 Bond Indenture.

Acceleration. Upon the occurrence of any Default, the Bond Trustee may, and at the written request of the Owners of at least a majority in aggregate principal amount of Outstanding Series 2011 Bonds must, by notice in writing delivered to the Issuer and the Corporation (or, if the Book Entry System is in effect, the Securities Depository), declare the principal of all Series 2011 Bonds and the interest accrued thereon to the date of such acceleration immediately due and payable. Upon any declaration of acceleration as described herein, the Bond Trustee will immediately declare all payments required to be made by the Corporation under the Loan Agreement to be immediately due and payable. Interest will cease to accrue on the Series 2011 Bonds on the date of declaration of acceleration as so described.

Other Remedies; Rights of Owners of Bonds. Subject to the provisions of the 2011 Bond Indenture described under "- Acceleration" above and with respect to indemnification of the Bond Trustee, upon the occurrence of a Default, the Bond Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Series 2011 Bonds.

Subject to the provisions of the 2011 Bond Indenture described under "- Acceleration" above, if a Default has occurred and is continuing and if requested so to do by the Owners of at least a majority in aggregate principal amount of Outstanding Series 2011 Bonds and provided the Bond Trustee is indemnified as provided in the 2011 Bond Indenture, the Bond Trustee will be obligated to exercise such one or more of the rights and powers conferred by the 2011 Bond Indenture, as the Bond Trustee, being advised by counsel, deems most expedient in the interests of the Owners of Series 2011 Bonds.

Subject to the provisions of the 2011 Bond Indenture described under "- Acceleration" above, no remedy by the terms of the 2011 Bond Indenture conferred upon or reserved to the Bond Trustee (or to the Owners of Series 2011 Bonds) is intended to be exclusive of any other remedy, but each and every such remedy will be cumulative and in addition to any other remedy given to the Bond Trustee or to the Owners of Series 2011 Bonds under the 2011 Bond Indenture or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Default will impair any such right or power or be construed to be a waiver of any such Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

No waiver of any Default under the 2011 Bond Indenture, whether by the Bond Trustee or by the Owners of Series 2011 Bonds, will extend to or affect any subsequent Default or impair any rights or remedies consequent thereon.

Right of Owners of Series 2011 Bonds to Direct Proceedings. Subject to the provisions of the 2011 Bond Indenture described under "- Acceleration" above, anything in the 2011 Bond Indenture to the contrary notwithstanding, the Owners of at least a majority in aggregate principal amount of the Outstanding Series 2011 Bonds will 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 2011 Bond Indenture, or for the appointment of a receiver or any other proceedings thereunder provided that such direction may not be otherwise than in accordance with the provisions of law and of the 2011 Bond Indenture.

Appointment of Receivers. Upon the occurrence of a Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bond Trustee and of the Owners of Series 2011 Bonds under the 2011 Bond Indenture, the Bond Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate and of the revenues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment confers.

Waiver. Upon the occurrence of a Default, to the extent that such rights may then lawfully be waived, neither the Issuer nor anyone claiming through or under it, will set up, claim or seek to take advantage of any appraisement, valuation, stay, extension or redemption laws of any jurisdiction now or hereafter in force, in order to prevent or hinder the enforcement of the 2011 Bond Indenture, and the Issuer, for itself and all who may claim through or under it, has waived, to the extent that it lawfully may do so, the benefit of all such laws.

Application of Moneys. All moneys received by the Bond Trustee pursuant to any right given or action taken under the provisions of the 2011 Bond Indenture (other than moneys deposited with the Bond Trustee and held in accordance with the provisions of the 2011 Bond Indenture as described under "- Revenues and Funds - Nonpresentment of Bonds" above) will, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses, liabilities and advances owing to or incurred or made by the Bond Trustee and the creation of a reasonable reserve for anticipated fees, costs and expenses, be deposited in the Bond Fund and applied as follows:

(a) Unless the principal of all the Series 2011 Bonds has become or has been declared due and payable, all such moneys will be applied:

FIRST – To the payment to the persons entitled thereto of all installments of interest then due on the Series 2011 Bonds, in the order of the maturity of the installments of such interest (with interest on overdue installments of such interest, to the extent permitted by law, at the rate of interest borne by the Series 2011 Bonds) and, if the amount available are not sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; and

SECOND – To the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Series 2011 Bonds which have become due (other than Series 2011 Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the 2011 Bond Indenture), (with interest on overdue installments of principal and premium, if any, to the extent permitted by law, at the rate of interest borne by the Series 2011 Bonds) and, if the amount available are not sufficient to pay in full all Series 2011 Bonds due on any particular date, then to the payment ratably according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege; and

THIRD – To the payment to the persons entitled thereto as the same become due of the principal of and premium, if any, and interest on the Series 2011 Bonds which may thereafter become due and, if the amount available are not sufficient to pay in full Series 2011 Bonds due on any particular date, together with interest and premium, if any, then due and owing thereon, payment will be made ratably according to the amount of interest, principal and premium, if any, due on such date to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Series 2011 Bonds has become due or has been declared due and payable, all such moneys will be applied to the payment of the principal and interest then due and unpaid upon the Series 2011 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 Series 2011 Bond over any other Series 2011 Bond, ratably, according to the amounts due, respectively, for principal and interest, to the persons entitled thereto without any discrimination or privilege, with interest on overdue installments of interest or principal, to the extent permitted by law, at the rate of interest borne by the Series 2011 Bonds.

(c) If the principal of all the Series 2011 Bonds has been declared due and payable and if such declaration thereafter has been rescinded and annulled as provided in the 2011 Bond Indenture, then, subject to the provisions of the 2011 Bond Indenture described in subparagraph (b) above, if the principal of all the Series 2011 Bonds later becomes due or be declared due and payable, the moneys will be applied in accordance with the provisions of the 2011 Bond Indenture described in subparagraph (a) above.

Whenever moneys are to be applied as described herein, such moneys will be applied at such times, and from time to time, as the Bond Trustee determines, 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 applies such funds, it will fix the date (which must be an Interest Payment Date unless it deems another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates will cease to accrue; provided that upon an acceleration of Series 2011 Bonds as described under "- Acceleration" above, interest will cease to accrue on the Series 2011 Bonds on and after the date of such acceleration. The Bond Trustee will give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and will not be required to make payment to the Owner of any Series 2011 Bond until such Series 2011 Bond is presented to the Bond Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever the principal of, premium, if any, and interest on all Series 2011 Bonds have been paid as provided in the 2011 Bond Indenture and all expenses and charges of the Bond Trustee have been paid, any balance remaining in the Bond Fund will be paid to the Corporation as described under "- Revenues and Funds --Bond Fund" above.

Rights and Remedies of Owners of Bonds. No Owner of any Series 2011 Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the 2011 Bond Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy thereunder, unless (subject to the provisions of the 2011 Bond Indenture described under "- Acceleration" above) (i) a Default has occurred of which the Bond Trustee has been notified as provided in the 2011 Bond Indenture, or of which it is deemed to have notice, (ii) the Owners of at least a majority in aggregate principal amount of Outstanding Series 2011 Bonds have made written request to the Bond Trustee and have offered it reasonable opportunity either to proceed to exercise the powers granted by the 2011 Bond Indenture or to institute such action, suit or proceeding and have offered to the Bond Trustee indemnity as provided in the 2011 Bond Indenture, and (iii) the Bond Trustee thereafter fails or refuses to exercise the powers granted by the 2011 Bond Indenture, or to institute such action, suit or proceeding. Such notification, request and offer of indemnity are in every case at the option of the Bond Trustee conditions precedent to the execution of the powers and trusts of the 2011 Bond Indenture, and to any action or cause of action for the enforcement of the 2011 Bond Indenture, or for the appointment of a receiver or for any other remedy thereunder; it being understood and intended that no one or more Owners of the Series 2011 Bonds have any right in any manner whatsoever to affect, disturb or prejudice the lien of the 2011 Bond Indenture by their action or to enforce any right thereunder except in the manner provided therein, and that all proceedings at law or equity must be instituted, had and maintained in the manner therein provided and for the equal and ratable benefit of the Owners of all Outstanding Series 2011 Bonds. However, nothing contained in the 2011 Bond Indenture will affect or impair the right of any Owner of Series 2011 Bonds to enforce the payment of the principal of, premium, if any, and interest on any Series 2011 Bond at and after the maturity thereof, or the obligation of the Issuer to pay the principal of, premium, if any, and interest on each of the Series 2011 Bonds issued under the 2011 Bond Indenture to the respective Owners thereof at the time and place, from the source and in the manner in the Series 2011 Bonds expressed.

Waivers of Default. The Bond Trustee will waive any Default under the 2011 Bond Indenture and its consequences and rescind any declaration of acceleration of principal upon the written request of the Owners of (1) at least a majority in aggregate principal amount of all Outstanding Series 2011 Bonds in respect of which default in the payment of principal or interest, or both, exists or (2) at least a majority in aggregate principal amount of Outstanding Series 2011 Bonds in the case of any other Default; provided that there may not be waived any Default as described in subparagraphs (a) or (b) under "- Defaults" above unless prior to such waiver or rescission, the Corporation has caused to be paid to the Bond Trustee (i) all arrears of principal and interest (other than principal of or interest on the Series 2011 Bonds which became due and payable by declaration of acceleration), with interest at the rate then borne by the Series 2011 Bonds on overdue installments, to the extent permitted by law, and (ii) all fees and expenses of the Bond Trustee in connection with such Default. In case of any waiver or rescission described above, or in case any proceeding taken by the Bond Trustee on account of any such Default has been discontinued or concluded or determined adversely, then and in every such case the Issuer, the Bond Trustee and the Owners of Series 2011 Bonds will be restored to their former positions and rights under the 2011 Bond Indenture, respectively, but no such waiver or rescission will extend to any subsequent or other Default, or impair any right consequent thereon.

Notice of Certain Defaults; Opportunity to Cure Such Defaults. Anything in the 2011 Bond Indenture to the contrary notwithstanding, no Default under the 2011 Bond Indenture as described in subparagraphs (c) or (d) under "- Defaults" above will be deemed a Default until notice of such Default has been given to the Issuer and the Corporation by the Bond Trustee or by the Owners of at least a majority in aggregate principal amount of all Outstanding Series 2011 Bonds, and the Issuer and the Corporation have had 30 days after receipt of such notice to correct said Default or to cause said Default to be corrected and have not corrected said Default or caused said Default to be corrected within the applicable period; provided that if said Default is such that it cannot be corrected within the applicable period, it will not constitute a Default if corrective action is instituted by the Issuer or the Corporation within the applicable period and diligently pursued until the Default is corrected.

With regard to any Default concerning which notice is given to the Issuer and the Corporation as described above, the Issuer has granted the Corporation full authority for the account of the Issuer to perform any covenant or obligation alleged in said notice to constitute a Default, in the name and stead of the Issuer with full power to do any and all things and acts to the same extent that the Issuer could do and perform any such things and acts and with power of substitution.

Bond Trustee

Acceptance of Trusts. The Bond Trustee has accepted the trusts imposed upon it by the 2011 Bond Indenture, and has agreed to perform said trusts, but only upon and subject to the terms and conditions set forth in the 2011 Bond Indenture.

Notice to Owners of Bonds if Default Occurs. If a Default occurs of which the Bond Trustee has been notified or of which it is deemed to have notice, as provided in the 2011 Bond Indenture, then the Bond Trustee will promptly give notice thereof to the Owner of each Series 2011 Bond.

Successor Bond Trustee. Any corporation or association into which the Bond Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, will be and become successor Bond Trustee under the 2011 Bond Indenture and vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties to the 2011 Bond Indenture, anything therein to the contrary notwithstanding.

Resignation by the Bond Trustee. The Bond Trustee and any successor Bond Trustee may at any time resign from the trusts created by the 2011 Bond Indenture by giving 30 days' notice to the Issuer, the Corporation, and the Owner of each Series 2011 Bond. Such resignation will not take effect until the appointment of a successor Bond Trustee or temporary Bond Trustee. Upon such resignation, the resigning Bond Trustee shall be entitled to prompt payment in full of all fees and expenses and other amounts payable to the Bond Trustee pursuant to the 2011 Bond Indenture or the Loan Agreement.

Removal of the Bond Trustee. The Bond Trustee may be removed at any time by an instrument or concurrent instruments in writing delivered to the Bond Trustee and to the Issuer and signed by the Owners of at least a majority in aggregate principal amount of Outstanding Series 2011 Bonds. Such removal will not take effect until (i) the appointment of a successor Bond Trustee or temporary Bond Trustee and the transfer to said successor or temporary Bond Trustee of the Credit Facility and (ii) payment in full of all fees and expenses and other amounts payable to the Bond Trustee pursuant thereto or to the Loan Agreement.

Appointment of Successor Bond Trustee by Owners of Bonds. If the Bond Trustee resigns or is removed, or is dissolved, or is in the course of dissolution or liquidation, or otherwise becomes incapable of acting under the 2011 Bond Indenture, or if it is taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor may be appointed by the Owners of at least a majority in aggregate principal amount of Outstanding Series 2011 Bonds by an instrument or concurrent instruments in writing signed by such Owners, or by their attorneys in fact duly authorized, a copy of which will be delivered personally or sent by registered mail to the Issuer and the Corporation. In case of any such vacancy, the Issuer, by an instrument executed by its official who executed the Series 2011 Bonds or his successor in office, may appoint a temporary successor Bond Trustee to fill such vacancy until a successor Bond Trustee may be appointed by the Owners of Series 2011 Bonds in the manner above described; and such temporary successor Bond Trustee so appointed by the Issuer will immediately and without further act be superseded by the Bond Trustee appointed by the Owners of Series 2011 Bonds. If no successor Bond Trustee has accepted appointment in the manner described in the immediately following paragraph within 60 days after the Bond Trustee has given notice of resignation to the Issuer and the Owner of each Series 2011 Bond, the Bond Trustee may petition any court of competent jurisdiction for the appointment of a temporary successor Bond Trustee; provided that any Bond Trustee so appointed will immediately and without further act be superseded by a Bond Trustee appointed by the Issuer or the Owners of Series 2011 Bonds as described herein. Every successor Bond Trustee appointed pursuant to the provisions of the 2011 Bond Indenture described herein, if there be such an institution willing, must be qualified and able to accept the trust upon customary terms, a bank or trust company within or without the State, in good standing and having reported capital and surplus of not less than $50,000,000 and rated Baa3/Prime-3 or better by Moody's (or a substantially equivalent rating by such other rating agency then providing the rating borne by the Series 2011 Bonds).

Acceptance by Successor Bond Trustee. Every successor Bond Trustee appointed under the 2011 Bond Indenture will execute, acknowledge and deliver to its or his predecessor and also to the Issuer and the Corporation an instrument in writing accepting such appointment and thereupon such successor, without any further act, deed or conveyance, will become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessor; but its predecessor will, nevertheless, on the written request of the Issuer, or of its successor, execute and deliver an instrument transferring to such successor all the estates, properties, rights, powers and trusts of such predecessor under the 2011 Bond Indenture; and every predecessor Bond Trustee will deliver all securities and moneys held by it as Bond Trustee under the 2011 Bond Indenture to its successor. Should any instrument in writing from the Issuer be required by any successor Bond Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties vested by the 2011 Bond Indenture or intended to be vested in the predecessor, any and all such instruments in writing will, on request, be executed, acknowledged and delivered by the Issuer.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Owners of Bonds. The Issuer and the Bond Trustee may, upon receipt of an opinion of Bond Counsel to the effect that the proposed supplemental indenture will not adversely affect the excludability of interest on the Series 2011 Bonds from gross income for federal income tax purposes and is authorized by the 2011 Bond Indenture, and without consent of, or notice to, any of the Owners of Series 2011 Bonds, enter into an indenture or indentures supplemental to the 2011 Bond Indenture for any one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission in the 2011 Bond Indenture;

(b) To grant to or confer upon the Bond Trustee for the benefit of the Owners of Series 2011 Bonds any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Owners of Series 2011 Bonds or the Bond Trustee;

(c) To subject to the 2011 Bond Indenture additional revenues, properties or collateral;

(d) To modify, amend or supplement the 2011 Bond Indenture or any indenture supplemental thereof in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of the Series 2011 Bonds for sale under the securities laws of any of the states of the United States of America;

(e) To evidence the appointment of a separate or Co-Bond Trustee or the succession of a new Bond Trustee;

(f) To correct any description of, or to reflect changes in, any of the properties comprising the Trust Estate;

(g) To make any revisions of the 2011 Bond Indenture required by Fitch, Moody's or S&P in order to obtain or maintain an investment grade rating on the Series 2011 Bonds;

(h) To provide for an uncertificated system of registering the Series 2011 Bonds or to provide for changes to or from the Book Entry System; or

(i) To effect any other change in the 2011 Bond Indenture which is not to the material prejudice of the Bond Trustee or the Owners of Series 2011 Bonds.

If Fitch, S&P and/or Moody's, as the case may be, has issued a rating of any of the Series 2011 Bonds, the Bond Trustee will provide written notice of the proposed amendment to such rating agencies, but such notice will not be a condition of the effectiveness of such amendment.

Supplemental Indentures Requiring Consent of Owners of Bonds. Exclusive of supplemental indentures described under "- Supplemental Indentures Not Requiring Consent of Owners of Bonds" above, and subject to the terms and provisions contained in the 2011 Bond Indenture and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Outstanding Series 2011 Bonds have the right, from time to time, anything contained in the 2011 Bond Indenture to the contrary notwithstanding, to consent to and approve the execution by the Issuer and the Bond Trustee of such other indenture or indentures supplemental to the 2011 Bond Indenture as deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the 2011 Bond Indenture or in any supplemental indenture; provided that nothing contained in the 2011 Bond Indenture will permit, or be construed as permitting, without the consent of the Owners of all Series 2011 Bonds Outstanding, (a) an extension of the maturity of the principal of, or the interest on, any bond issued under the 2011 Bond Indenture, or (b) a reduction in the principal amount of, or redemption premium on, any Series 2011 Bond or the rate of interest thereon, or (c) a privilege or priority of any Series 2011 Bond or Series 2011 Bonds over any other Series 2011 Bond or Series 2011 Bonds, or (d) a reduction in the aggregate principal amount of the Series 2011 Bonds required for consent to such supplemental indentures or any modifications or waivers of the provisions of the 2011 Bond Indenture or the Loan Agreement, or (e) the creation of any lien ranking prior to or on a parity with the lien of the 2011 Bond Indenture on the Trust Estate or any part thereof, except as hereinbefore expressly described, or (f) the deprivation of the Owner of any Outstanding Series 2011 Bond of the lien created by the 2011 Bond Indenture on the Trust Estate.

If at any time the Issuer requests the Bond Trustee to enter into any such supplemental indenture for any of the purposes described in the preceding paragraph, the Bond Trustee will, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be given to the Owners of the Series 2011 Bonds as provided in the 2011 Bond Indenture; provided that prior to the delivery of such notice, the Bond Trustee may require that an opinion of Bond Counsel be furnished to the effect that the supplemental indenture complies with the provisions of the 2011 Bond Indenture and will not adversely affect the excludability of interest on the Series 2011 Bonds from gross income for federal income tax purposes. Such notice will briefly set forth the nature of the proposed supplemental indenture and state that copies thereof are on file at the Principal Office of the Bond Trustee for inspection by all Owners of Series 2011 Bonds. If, within 60 days or such longer period as prescribed by the Issuer following such notice, the Owners of not less than a majority in aggregate principal amount of the Series 2011 Bonds Outstanding (except for those supplemental indentures requiring the consent of the Owners of all Series 2011 Bonds Outstanding as described above) at the time of the execution of any such supplemental indenture have consented to and approved the execution thereof as described herein, no Owner of any Series 2011 Bond will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Bond Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as permitted by the 2011 Bond Indenture, the 2011 Bond Indenture will be and be deemed to be modified and amended in accordance therewith.

If Fitch, S&P and/or Moody's, as the case may be, has issued a rating of any of the Series 2011 Bonds, the Bond Trustee will provide written notice of the proposed amendment to such rating agencies, but such notice will not be a condition of the effectiveness of such amendment.

Consent of the Corporation. Anything in the 2011 Bond Indenture to the contrary notwithstanding, a supplemental indenture as described above will not become effective unless and until the Corporation has consented to the execution and delivery of such supplemental indenture. In this regard, the Bond Trustee will cause notice of the proposed execution of any such supplemental indenture, together with a copy of the proposed supplemental indenture, to be mailed to the Corporation at least 15 Business Days prior to the proposed date of execution and delivery of any such supplemental indenture.

Amendment without Consent of Issuer. If the Issuer is unable to enter into any supplemental indenture permitted by the 2011 Bond Indenture as described above, the Bond Trustee may, without the consent of the Issuer, amend or supplement the 2011 Bond Indenture in any manner otherwise permitted by the 2011 Bond Indenture so long as such supplemental indenture does not adversely affect the rights of the Issuer.

Execution of Amendments and Supplements by Bond Trustee. The Bond Trustee will not be obligated to sign any amendment or supplement to the 2011 Bond Indenture or the Series 2011 Bonds if the amendment or supplement, in the judgment of the Bond Trustee, could adversely affect the rights, duties, liabilities, protections, privileges, indemnities or immunities of the Bond Trustee. In signing an amendment or supplement, the Bond Trustee will be entitled to receive, and to be fully protected in conclusively relying on, an opinion of Bond Counsel stating that such amendment or supplement is authorized by the 2011 Bond Indenture, and will not adversely affect the exclusion of interest on the Series 2011 Bonds from gross income for federal income tax purposes.

Amendment of Loan Agreement

Amendments to Loan Agreement Not Requiring Consent of Owners of Bonds. The Issuer and the Bond Trustee may, upon receipt of an opinion of Bond Counsel to the effect that the proposed amendment will not adversely affect the excludability of interest on the Series 2011 Bonds from gross income for federal income tax purposes and is authorized by the 2011 Bond Indenture, and without the consent of or notice to the Owners of Series 2011 Bonds, consent to any amendment, change or modification of the Loan Agreement as may be required (i) by the provisions of the Loan Agreement, (ii) for the purpose of curing any ambiguity or formal defect or omission in the Loan Agreement, (iii) to enter into an indenture or indentures supplemental to the 2011 Bond Indenture as described under "- Supplemental Indentures - Supplemental Indentures Not Requiring Consent of Owners of Bonds" above; (iv) to make any revisions required by Fitch, Moody's and/or S&P in order to obtain or maintain an investment grade rating on the Series 2011 Bonds, (v) in connection with any other change therein which is not to the prejudice of the Bond Trustee or the Owners of Series 2011 Bonds or (vi) to make revisions thereto which will be effective only upon, and in connection with, the remarketing of all of the Series 2011 Bonds then Outstanding.

Amendments to Loan Agreement Requiring Consent of Owners of Bonds. Except for amendments, changes or modifications as described in the immediately preceding paragraph, neither the Issuer nor the Bond Trustee may consent to any other amendment, change or modification of the Loan Agreement without mailing of notice and the written approval or consent of the Owners of a majority in aggregate principal amount of the Outstanding Series 2011 Bonds, provided that the consent of the Owners of all Series 2011 Bonds Outstanding is required for any amendment, change or modification of the Loan Agreement that would permit the termination or cancellation of the Loan Agreement or a reduction in or postponement of the payments under the Loan Agreement or any change in the provisions relating to payment thereunder. If at any time the Issuer and the Corporation request the consent of the Bond Trustee to any such proposed amendment, change or modification of the Loan Agreement, the Bond Trustee, upon being satisfactorily indemnified with respect to expenses, will cause notice of such proposed amendment, change or modification to be given as provided in the 2011 Bond Indenture; provided that prior to the delivery of such notice or request, the Bond Trustee and the Issuer may require that an opinion of Bond Counsel be furnished to the effect that such amendment, change or modification complies with the provisions of the 2011 Bond Indenture and will not adversely affect the excludability of interest on the Series 2011 Bonds from gross income for federal income tax purposes.

The Bond Trustee will not be obligated to sign any amendment or supplement to the Loan Agreement if such amendment or supplement, in the judgment of the Bond Trustee, might adversely affect the rights, duties, liabilities, protections, indemnities or immunities of the Bond Trustee. In signing any such amendment or supplement, the Bond Trustee will be entitled to receive, and will be fully protected in conclusively relying upon, an opinion of Bond Counsel stating that such amendment or supplement is authorized by the 2011 Bond Indenture and will not impair the exclusion of the interest on any Series 2011 Bonds from the gross income of the Owners thereof for federal income tax purposes.

Payments Due on Saturdays, Sundays and Holidays

In any case where the date of maturity of interest on or principal of the Series 2011 Bonds or the date fixed for purchase or redemption of any Series 2011 Bonds is not be Business Day, then payment of principal, premium, if any, or interest need not be made on such date but may be made on the next Business Day with the same force and effect as if made on the date of maturity or the date fixed for purchase or redemption.

No Personal Liability

Notwithstanding anything to the contrary contained in the 2011 Bond Indenture or in any of the Series 2011 Bonds or the Loan Agreement, or in any other instrument or document executed by or on behalf of the Issuer in connection therewith, no stipulation, covenant, agreement or obligation contained therein may be deemed or construed to be a stipulation, covenant, agreement or obligation of any present or future member, commissioner, director, trustee, officer, employee or agent of the Issuer, or of any incorporator, member, commissioner, director, trustee, officer, employee or agent of any successor to the Issuer, in any such person's individual capacity, and no such person, in his individual capacity, will be liable personally for any breach or non observance of or for any failure to perform, fulfill or comply with any such stipulations, covenants, agreements or obligations, nor may any recourse be had for the payment of the principal of, premium, if any, or interest on any of the Series 2011 Bonds or for any claim based thereon or on any such stipulation, covenant, agreement or obligation, against any such person, in his individual capacity, either directly or through the Issuer or any successor to the Issuer, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such person, in his individual capacity, has been expressly waived and released in the 2011 Bond Indenture.

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 Series 2011 Bond Proceeds

Pursuant to the Loan Agreement, the Issuer will lend the proceeds from the sale of the Series 2011 Bonds to the Corporation. The Series 2011 Obligation will be delivered to the Issuer and assigned to the Bond Trustee to evidence such loan and the obligation of the Obligated Group to repay the same. The Series 2011 Obligation will be issued in a principal amount equal to the aggregate principal amount of the Series 2011 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 Series 2011 Bonds.

Payment of Series 2011 Bonds

The Corporation has agreed that the principal of, premium, if any, and interest on the Series 2011 Bonds will be payable in accordance with the provisions of the 2011 Bond Indenture and the Loan Agreement. The Corporation has further agreed that the Loan Agreement, the Series 2011 Obligation and any additional Obligation 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 Reserved Rights) will be assigned and pledged to the Bond Trustee to secure the payment of the Series 2011 Bonds. The foregoing notwithstanding, the Corporation has agreed that the moneys and securities, if any, on deposit in the Rebate Fund created under the 2011 Bond Indenture are not part of the Trust Estate and are not available to make payments of principal and interest on the Series 2011 Bonds.

Obligation Payments; Fund Deposits; Prepayments And Other Payments

Payment of Principal, Premium, if any, and Interest. The Corporation has covenanted that it will duly and punctually pay the principal of, premium, if any, and interest on the Series 2011 Bonds at the dates and the places and in the manner mentioned in the Series 2011 Bonds according to the true intent and meaning thereof.

Payments in Respect of the Series 2011 Obligation. The Corporation has covenanted and agreed to make the following payments in respect of the Series 2011 Obligation directly to the Bond Trustee for application under the 2011 Bond Indenture on the following dates:

(a) Interest: On or prior to each Interest Payment Date for the Series 2011 Bonds, an amount which is not less than the interest to become due on the next Interest Payment Date of the Series 2011 Bonds; provided that the Corporation will be entitled to certain credits on such payments as permitted by the Loan Agreement and described under "- Credits on Obligation" below.

(b) Principal: On or prior to each date on which principal of the Series 2011 Bonds is due and payable, an amount which is not less than the next installment of principal coming due on the Series 2011 Bonds by maturity or mandatory sinking fund redemption; provided that the Corporation will be entitled to certain credits on such payments as permitted by the Loan Agreement and described under "- Credits on Obligation" below.

Credits on Obligation. Notwithstanding any provision contained in the Loan Agreement or in the 2011 Bond Indenture to the contrary, in addition to any credits on the Series 2011 Obligation or any additional Obligation pledged under the 2011 Bond Indenture resulting from the payment or prepayment thereof from other sources:

(a) any moneys deposited by the Bond Trustee or the Corporation in the Bond Fund maintained under the 2011 Bond Indenture will be credited against the obligation of the Corporation to pay the principal of and interest on the Obligation pledged under the 2011 Bond Indenture as the same become due and in the order of maturity to the same extent as payments are applied upon the principal of and interest on, respectively, the Series 2011 Bonds through the Bond Fund; and

(b) the principal amount of Series 2011 Bonds of any series and maturity purchased by the Corporation and delivered to the Bond Trustee, or purchased by the Bond Trustee and cancelled, will be credited against the obligation of the Corporation to pay the principal of the Obligation (including installment payments corresponding to mandatory sinking fund payments on such Series 2011 Bonds) related to such series of Series 2011 Bonds so purchased; provided that deposit of a Series 2011 Bond of one maturity may not be credited against an Obligation which would be used, in the normal course, to retire a Series 2011 Bond of another maturity.

Additional Payments. The Corporation has agreed to pay directly all costs incurred by or on behalf of the Issuer or the Corporation in connection with or incident to the issuance and sale of the Series 2011 Bonds which exceed the amount on deposit in the Costs of Issuance Fund established under the 2011 Bond Indenture. The Corporation has also agreed to pay the following items to the following persons as additional payments under the Loan Agreement:

(a) To the Bond Trustee, within 30 days of receipt of written demand therefor, all reasonable fees and expenses of the Bond Trustee for services rendered under the 2011 Bond Indenture and all reasonable fees and charges of any Paying Agent, registrars, counsel, accountants, consultants, engineers and other persons incurred in the performance of services under the 2011 Bond Indenture, on request of the Bond Trustee for which the Bond Trustee and such other persons are entitled to payment or reimbursement;

(b) To the Issuer, upon demand, all fees and expenses incurred by the Issuer in relation to the Series 2011 Obligation pledged under the 2011 Bond Indenture or the Series 2011 Bonds which are not otherwise required to be paid by the Corporation under the terms of the Loan Agreement, and all fees, expenses, taxes and assessments of the Issuer as provided for under the Act; and

(c) To the Master Trustee or the Bond Trustee, as the case may be, the amount of all advances of funds made by either of them under the provisions of the Master Indenture or the 2011 Bond Indenture, with interest thereon from the date of each such advance at the lesser of (i) Master Trustee's or Bond Trustee's (or the Bond Trustee's affiliated bank's), as the case may be, announced prime rate per annum from time to time in effect or (ii) the highest amount then allowed by law.

(d) If the Corporation fails to make any of the payments required by the Loan Agreement as described herein, the item or installment so in default will continue as an obligation of the Corporation until the amount in default has been fully paid, and the Corporation has agreed to pay the same with interest thereon, to the extent permitted by law, from the date when such payment was due, at the rate of interest borne by the Series 2011 Bonds.

Obligation of Corporation Unconditional. The obligations of the Corporation to make the payments described above and to perform and observe the other agreements contained in the Loan Agreement are absolute and unconditional will not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach by the Issuer or the Bond Trustee of any obligation to the Corporation, whether under the Loan Agreement or otherwise, or out of any indebtedness or liability at any time owing to the Corporation by the Issuer or the Bond Trustee, and, until such time as the principal of, premium, if any, and interest on the Series 2011 Bonds have been fully paid or provision for the payment thereof has been made in accordance with the 2011 Bond Indenture, the Corporation has agreed that it (i) will not suspend or discontinue any payments provided for in the Loan Agreement as described above, (ii) will perform and observe all other agreements contained in the Loan Agreement and (iii) except as otherwise provided in the Loan Agreement, will not terminate the Term of Agreement for any cause, including, without limiting the generality of the foregoing, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either thereof or any failure of the Issuer or the Bond Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement. Nothing contained in the Loan Agreement as herein described will be construed to release the Issuer from the performance of any of the agreements on its part contained in the Loan Agreement, and if the Issuer or the Bond Trustee fails to perform any such agreement on its part, the Corporation may institute such action against the Issuer or the Bond Trustee as the Corporation deems necessary to compel performance so long as such action does not abrogate the obligations of the Corporation described in the first sentence of this paragraph.

Prepayment and Redemption

Prepayment Generally. The Corporation will have the option to prepay its obligations under the Loan Agreement at the times and in the amounts as necessary to exercise its option to cause the Series 2011 Bonds to be redeemed as set forth in the 2011 Bond Indenture and in the Series 2011 Bonds. If such prepayment is made, the Issuer agrees to accept prepayment of the Series 2011 Obligation pledged under the 2011 Bond Indenture to the extent required to provide for a permitted prepayment or redemption of the Series 2011 Bonds. No other prepayment of the Series 2011 Obligation pledged under the 2011 Bond Indenture will be permitted.

Amortization Schedules. On the date of any partial prepayment of any Obligation pledged under the 2011 Bond Indenture, the Corporation, upon consultation with the Bond Trustee, will deliver to the Issuer two copies of an amortization schedule with respect to the Series 2011 Obligation then outstanding setting forth the amount of the installments to be paid on the Series 2011 Obligation after the date of such partial prepayment and the unpaid principal balance of the Series 2011 Obligation after payment of each such installment.

Covenants Relating to Use and Operation of Corporation's Property

Use of the Corporation's Property. The Corporation will use its health care Facilities primarily as and for a general hospital and related activities and only in furtherance of the lawful corporate purposes of the Corporation.

The Corporation has agreed that it will not permit any of the Property for which it or the Issuer is or was reimbursed or which is or has been acquired, constructed or equipped, in whole or in part, out of (a) the loan of proceeds of the Series 2011 Bonds or (b) the proceeds of any loan refinanced or for the refinancing of 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 Series 2011 Bonds, to be used (i) by any Person in an Unrelated Trade or Business of the Corporation, or (ii) 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 Series 2011 Bonds or the Series 2011 Bonds or any other such tax-exempt bonds otherwise afforded under Section 103(a) of the Code.

The Corporation has further agreed that it will not use or permit to be used any of the Property for which it is reimbursed or which is acquired, constructed or equipped, in whole or in part, out of (a) the loan of proceeds of the Prior Bonds or (b) the proceeds of any loans refinanced or for the refinancing of which the Corporation is reimbursed, in whole or in part, whether directly or indirectly, from the proceeds of the Series 2011 Bonds (i) 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 persons in the field of religion, or (ii) 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 decisions of the United States Supreme Court interpreting the same or by any comparable provisions of the Constitution of the State and the decisions in the Supreme Court of the State interpreting the same.

The Corporation will permit the Issuer and the Bond Trustee to make inspections of any of its Property to determine compliance with the provisions of the Loan Agreement described in the two preceding paragraphs. The provisions of the Loan Agreement described in this paragraph and the immediately preceding paragraph will remain in full force and effect notwithstanding the payment of the Series 2011 Bonds and the Series 2011 Obligation and the termination of the 2011 Bond Indenture and the Loan Agreement.

Rates and Charges. The Corporation has covenanted and agreed to operate its existing health care Facilities primarily as a revenue producing hospital or as facilities related thereto, and to operate all its Property on a nondiscriminatory basis, to charge such fees and rates for its Facilities and services and to exercise such skill and diligence as to provide income from its Property together with other available funds sufficient to pay promptly all expenses of operation, maintenance and repair of its Property, all amounts owing under the 2011 Bond Indenture and all other payments required to be made by the Corporation under the Loan Agreement to the extent permitted by law. The Corporation has further covenanted and agreed that it will, from time to time as often as necessary, 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 Loan Agreement described herein. The provisions of the Loan Agreement described in this paragraph may not be construed to prohibit the Corporation from serving indigent patients to the extent required for it to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients without charge at or reduced rates so long as such service does not prevent the Corporation from satisfying the other requirements of the Loan Agreement described herein.

Particular Corporation Covenants

Maintenance of Corporate Existence and Status. The Corporation has agreed that, except as permitted by the Master Indenture, it will at all times maintain its existence as a Tennessee nonprofit corporation and that 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. The Corporation has further covenanted and agreed that, as long as any Series 2011 Bonds 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 has further agreed that it will not act or fail to act in any other manner which would adversely affect the exemptions from federal income tax of the interest earned by the owners of the Series 2011 Bonds to which such Series 2011 Bonds would otherwise be entitled.

Maintenance; Recording. The Corporation will, at its expense, take all necessary action to maintain and preserve the Loan Agreement so long as the Series 2011 Obligation or any additional Obligation pledged under the 2011 Bond Indenture is Outstanding. The Corporation will, forthwith after the execution and delivery of the Loan Agreement and thereafter from time to time, cause the Loan Agreement and all documents securing the Loan Agreement or any document securing the Series 2011 Obligation pledged under the 2011 Bond Indenture (including any amendments and supplements thereof) and any financing statements in respect thereof to be filed, registered and recorded in such manner and in such places as may be required by law in order to publish notice thereof and fully to perfect and protect the lien of the 2011 Bond Indenture upon the trust estate referred to therein or any part thereof and, from time to time, will perform or cause to be performed any other act as provided by law and will execute or cause to be executed any and all continuation statements and further instruments that may be requested by the Issuer or the Bond Trustee for such publication, perfection and protection. The Corporation will provide copies to the Bond Trustee of any such filings or registrations. Except to the extent it is exempt therefrom, the Corporation will pay or cause to be paid all filing and registration and recording fees incident to such filing and registration and recording, and all expenses incident to the preparation, execution and acknowledgment of such instruments of further assurance and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Loan Agreement, the Series 2011 Obligation and such instruments of further assurance.

Financial Statements. The Corporation has covenanted that it will keep proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of, or in relation to, the business and affairs of the Corporation in accordance with generally accepted principles of accounting consistently applied and will furnish the materials and notice required to be delivered to the Master Trustee pursuant to the Master Indenture. In addition, the Corporation covenants that it will prepare unaudited consolidated financial statements, including balance sheets, income statements and cash flow for the three-month periods ending September 30, December 31 and March 31 of each year and will file the same with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system within 45 days following the end of each such three-month period.

Indemnity. The Corporation has agreed that it will pay, protect, indemnify and save the Issuer and the Bond Trustee harmless from and against any and all liabilities, losses, damages, costs and expenses (including reasonable attorneys' fees, costs and expenses of the Issuer and the Bond Trustee), causes of action, suits, claims, demands and judgments of whatsoever kind and nature (including those arising or resulting from any injury to or death of any person or damage to property) arising from or in any manner directly or indirectly growing out of or connected with the following:

(a) the use, non-use, condition or 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 such 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;

(b) violation of any agreement, warranty, covenant or condition of the Loan Agreement, except by the Issuer;

(c) violation of any contract, agreement, or restriction by the Corporation relating to its Property;

(d) violation of any law, ordinance, regulation or court order affecting any of the Corporation's Property or the ownership, occupancy or use thereof;

(e) any statement or information concerning the Corporation or any other Obligated Issuer, any of its or their officers and members or its or their Property, contained in any official statement furnished to the Issuer or the purchaser of any Series 2011 Bonds, that is untrue or incorrect in any material respect, and any omission from such official statement of any statement or information which should be contained therein for the purpose for which the same is to be used or which is necessary to make the statements therein concerning the Corporation or any other Obligated Issuer, any of its or their officers and members and its or their Property not misleading in any material respect, provided that such official statement has been approved by the Corporation or the Obligated Group Agent and the indemnified party did not have knowledge of the omission or misstatement or did not use such official statement with reckless disregard of or gross negligence in regard to the accuracy or completeness of such official statement; and

(f) the performance by the Bond Trustee of its duties under the 2011 Bond Indenture, but only to the extent that the Bond Trustee is not negligent in such performance.

For purposes of the provisions of the Loan Agreement described under "- Indemnity," Property will be deemed to include property otherwise excluded from the definition of "Property" as described in subparagraph (j) "Summary of Certain Provisions of the Master Indenture - Disposition of Property" above.

Such indemnity will extend to each person, if any, who "controls" the Issuer or the Bond Trustee, as the case may be, as that term is defined in Section 15 of the Securities Act of 1933, as amended, and to any officer, director or employee of the Issuer or the Bond Trustee.

In the event of settlement of any litigation commenced or threatened, such indemnity will be limited to the aggregate amount paid under a settlement effected with the written consent of the Corporation or the Obligated Group Agent.

The Issuer and the Bond Trustee will promptly notify the Corporation and the Obligated Group Agent in writing of any claim or action brought against the Issuer, the Bond Trustee or any controlling person, as the case may be, in respect of which indemnity may be sought against the Corporation, setting forth the particulars of such claim or action, and the Corporation will assume the defense thereof, including the employment of counsel satisfactory to the Issuer, the Bond Trustee or such controlling person, as the case may be, and the payment of all reasonable expenses. The Issuer, the Bond Trustee or any such controlling person, as the case may be, may employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel will not be payable by the Corporation unless such employment has been specifically authorized in writing by the Corporation.

All amounts payable to or with respect to the Issuer as herein described will be deemed to be fees and expenses of the Issuer for the purposes of the provisions of the Loan Agreement and of the 2011 Bond Indenture dealing with assignment of the Issuer's rights under the loan Agreement. The indemnification provided in the Loan Agreement shall survive the termination of the Loan Agreement, the payment in full of the Series 2011 Bonds or the sooner resignation or removal of the Bond Trustee and shall inure to the benefit of the Bond Trustee's successor and assigns.

Accreditation and Licensure. The Corporation has warranted that its hospitals are accredited by the Joint Commission on Accreditation of Healthcare Organizations and that its health care Facilities have all state and local licenses required for the operation thereof. The Corporation has covenanted that it will obtain and maintain all such licenses required for its operations and the operation of its health care Facilities and will 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.

Government Grants. The Corporation has covenanted to comply with all of the terms and provisions of any government grants it receives, including those made by the State and the federal government, and the laws and regulations under which they are made.

Transfer of Assets. The Corporation has covenanted and agreed that it will not sell, lease or otherwise dispose of any of its Property except as permitted by the Master Indenture. The provisions of the Master Indenture notwithstanding, the Corporation has further covenanted and agreed 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 Series 2011 Bonds (which percentage will be reduced to the extent Property financed or refinanced with the proceeds of the Series 2011 Bonds is being used in an Unrelated Trade or Business of the Corporation) unless (a) 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 are acceptable to the Bond Trustee) to the effect that any such disposition will not adversely affect the validity of the Series 2011 Bonds or the exemption from federal income taxation of the interest paid on the Series 2011 Bonds or any other such tax-exempt bonds under Section 103(a) of the Code, or (b) prior to such sale, lease or other disposition there is delivered to the Bond Trustee 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 must be applied by the Corporation to acquire additional Property constituting a "project" under the Act. The Corporation has agreed to apply the proceeds of any disposition referred to in a certificate of the type described in clause (b) above as described in such clause and has agreed that any property acquired with such proceeds will be deemed to be Property financed or refinanced with the proceeds of the Series 2011 Bonds for the purposes 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.

The provisions of the Master Indenture notwithstanding, the Corporation has further covenanted and agreed that it will not sell, lease or otherwise dispose (including without limitation any involuntary disposition) of any Property pursuant to the provisions of the Master Indenture described in subparagraph (c) under "Summary of Certain Provisions of the Master Indenture - Disposition of Property" above unless, prior to the sale, lease or other disposition, the Corporation delivers to the Master Trustee and the Bond Trustee an Officer's Certificate certifying that Property so transferred in the then-current Fiscal Year by all Obligated Issuers and Restricted Affiliates does not exceed the lesser of (i) 10% of the Value of all Property of the Combined Group for the immediately preceding Fiscal Year or (ii) 5% of the aggregate of "gross patient revenues" of each member of the Combined Group for the immediately preceding Fiscal Year.

The provisions of the Master Indenture notwithstanding, the Corporation has further covenanted and agreed that it will not sell, lease or otherwise dispose (including without limitation any involuntary disposition) of any Property pursuant to the provisions of the Master Indenture described under "Summary of Certain Provisions of the Master Indenture - Disposition of Property" above unless, prior to the sale, lease or other disposition, the Corporation delivers to the Master Trustee and the Bond Trustee an Officer's Certificate certifying that, after such sale, lease or other disposition, the Corporation will have Unrestricted Cash and Investments in an amount equal to at least 100 Days of Operating Expenses, calculated as of the end of the most recently audited fiscal year and as if the sale, lease or other disposition had occurred at the beginning of such fiscal year. For purposes of this paragraph, "Unrestricted Cash and Investments" means the sum of cash, cash equivalents and unrestricted/unencumbered long term marketable or liquid investments less trustee held funds, reserves, deposits or set asides including debt service funds, construction funds, reserve funds, malpractice funds, litigation reserves, self insurance or captive insurer funds, and pension or retirement funds, adjusted to exclude any short term indebtedness, and "100 Days of Operating Expenses" means operating expenses minus depreciation and amortization expense for the applicable fiscal year divided by 365 or 366, as appropriate, then multiplied by 100.

Maintenance of Status as a Member of the Obligated Group. The Corporation has covenanted and agreed that as long as any Series 2011 Bonds remain Outstanding, it will remain a member of the Obligated Group.

Defaults and Remedies

Defaults Defined. The following are "Defaults" under the Loan Agreement and the term "Default" means, whenever it is used in the Loan Agreement, any one or more of the following events:

(a) Failure by the Corporation to pay any amount required to be paid as described under "- Obligation Payments; Fund Deposits; Prepayments and Other Payments - Payments in Respect of the Series 2011 Obligation."

(b) Failure by the Corporation to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as described in subparagraph (a) above, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the Corporation by the Issuer or the Bond Trustee, unless the Issuer and the Bond Trustee agree in writing to an extension of such time prior to its expiration; provided that if the failure stated in the notice cannot be corrected within the applicable period, the Issuer and the Bond Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Corporation within the applicable period and diligently pursued until such failure is corrected.

(c) The dissolution or liquidation of the Corporation, except as authorized by the Loan Agreement or the Master Indenture, or the voluntary initiation by the Corporation of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt or any other form of debtor relief, or the initiation against the Corporation of any such proceeding which remain undismissed for 60 days, or failure by the Corporation to promptly have discharged any execution, garnishment or attachment of such consequence as would impair the ability of the Corporation to carry on its operations at the Facilities, or assignment by the Corporation for the benefit of creditors, or the entry by the Corporation into an agreement of composition with its creditors or the failure generally by the Corporation to pay its debts as they become due.

(d) The occurrence of a Default under the 2011 Bond Indenture.

The provisions of the Loan Agreement described in subparagraph (b) above are subject to the following limitation: if by reason of force majeure the Corporation is unable in whole or in part to carry out any of its agreements contained herein (other than its obligations as described under "- Obligation Payments; Fund Deposits; Prepayments And Other Payments" above), the Corporation will not be deemed in Default during the continuance of such inability. The term "force majeure" as used herein means, without limitation, the following: acts of God; strikes or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America, or of the State or of any of their departments, agencies or officials, or of any civil or military authority; insurrections; riots; landslides; earthquakes; fires; storms; droughts; floods; explosions; breakage or accident to machinery, transmission pipes or canals; and any other cause or event not reasonably within the control of the Corporation. The Corporation has agreed, however, to remedy with all reasonable dispatch the cause or causes preventing the Corporation from carrying out its agreement, provided that the settlement of strikes and other industrial disturbances will be entirely within the discretion of the Corporation and the Corporation will not be required to settle strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Corporation unfavorable to the Corporation.

Remedies on Default. Whenever any Default described under "- Defaults Defined" above has happened and is continuing, the Bond Trustee, or the Issuer with the written consent of the Bond Trustee, may take one or any combination of the following remedial steps:

(a) If the Bond Trustee has declared the Series 2011 Bonds immediately due and payable pursuant to the acceleration provisions of the 2011 Bond Indenture, by written notice to the Corporation, declare an amount equal to all amounts then due and payable on the Series 2011 Bonds, whether by acceleration of maturity (as provided in the 2011 Bond Indenture) or otherwise, to be immediately due and payable as liquidated damages under the Loan Agreement and not as a penalty, whereupon the same will become immediately due and payable;

(b) Have reasonable access to and inspect, examine and make copies of the books and records and any and all accounts, data and income tax and other tax returns of the Corporation during regular business hours of the Corporation if reasonably necessary in the opinion of the Bond Trustee; or

(c) Take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Corporation under the Loan Agreement.

Any amounts collected pursuant to action taken as herein described will be paid into the Bond Fund and applied in accordance with the provisions of the 2011 Bond Indenture.

No Remedy Exclusive. Subject to the acceleration provisions of the 2011 Bond Indenture, no remedy in the Loan Agreement conferred upon or reserved to the Issuer or the Bond Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy will be cumulative and be in addition to every other remedy given under the Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any Default will impair any such right or power or be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer or the Bond Trustee to exercise any remedy reserved to it as described herein, it will not be necessary to give any notice other than such notice as may be required by the Loan Agreement. Such rights and remedies as are given the Issuer under the Loan Agreement will also extend to the Bond Trustee, and the Bond Trustee and the Owners of the Series 2011 Bonds, subject to the provisions of the 2011 Bond Indenture, will be entitled to the benefit of all covenants and agreements contained in the Loan Agreement.

Agreement to Pay Attorneys' Fees, Costs and Expenses. If the Corporation defaults under any of the provisions of the Loan Agreement and the Issuer or the Bond Trustee employs attorneys or incurs other costs or expenses for the collection of payments required thereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Corporation contained therein, the Corporation has agreed that it will on demand therefor pay to the Issuer or the Bond Trustee, as applicable, the reasonable fees, costs and expenses of such attorneys and such other costs or expenses so incurred by the Issuer or the Bond Trustee, as applicable.

No Additional Waiver Implied by One Waiver. If any agreement contained in the Loan Agreement is breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and may not be deemed to waive any other breach thereunder.

Term of Agreement

The Loan Agreement will remain in full force and effect from its date to and including September 1, 2032 or until such time as all of the Series 2011 Bonds and the fees and expenses of the Issuer and the Bond Trustee have been fully paid or provision made for such payments, whichever is later; provided that the Loan Agreement may be terminated prior to such date as provided in the Loan Agreement, but in no event before all of the obligations and duties of the Corporation thereunder have been fully performed, including, without limitation, the payments of all costs and fees mandated thereunder.

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APPENDIX D.

FORM OF APPROVING OPINION OF BOND COUNSEL

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May __, 2011

The Health, Educational and Housing Facilities Board
of the County of Sullivan, Tennessee
Sullivan, Tennessee

$76,165,000
The Health, Educational and Housing Facilities Board
of the County of Sullivan, Tennessee
Hospital Revenue Refunding Bonds
(Wellmont Health System Project)
Series 2011

Ladies and Gentlemen:

We have served as Bond Counsel in connection with the issuance by The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee (the "Board") of the Board's $76,165,000 Hospital Revenue Refunding Bonds (Wellmont Health System Project), Series 2011 (the "Bonds"). The Bonds have been issued pursuant to the terms of a Bond Trust Indenture dated as of May 1, 2011 (the "Indenture"), between the Board and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the "Trustee"). Unless otherwise defined, each capitalized term used in this opinion shall have the meaning given it in Article I of the Indenture.

The proceeds of the Bonds are to be loaned by the Board to Wellmont Health System (the "Borrower") pursuant to the terms of a Loan Agreement dated as of May 1, 2011 (the "Loan Agreement"), between the Board and the Borrower.

The Bonds will be dated their date of delivery. The Bonds are payable solely from the revenues, receipts and payments pledged pursuant to the Indenture. We refer you to the Bonds, the Indenture and the Loan Agreement for a description of the purposes for which the Bonds are issued and the security for them.

We have examined the Constitution of the State of Tennessee (the "State") and the laws of both the United States and the State, including, without limitation, the Internal Revenue Code of 1986, as amended (the "Code"), and the Act, and such certified proceedings and other documents of the Board as we deem necessary to render this opinion, including the resolution adopted by the Board on April 14, 2011 authorizing the issuance of the Bonds.

As to questions of fact material to our opinion, we have relied upon (a) representations of and compliance with covenants by the Borrower and the Board contained in the Indenture, the Loan Agreement and the Tax Compliance Agreement, (b) certificates of public officials furnished to us, (c) computations provided by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"), relating to the yield on the Bonds, and (d) certificates of representatives of the Borrower, the Board, the Trustee and other parties, including, without limitation, representations, covenants and certifications as to the use of the proceeds of the Bonds and the property financed or refinanced thereby, compliance with the arbitrage yield restriction and rebate requirements, the average reasonably expected economic life of the property being financed with the Bonds and other factual matters which are relevant to the opinions expressed in paragraph 5, in each case without undertaking any independent verification. We have assumed that all signatures on documents, certificates and instruments examined by us are genuine, all documents, certificates and instruments submitted to us as originals are authentic and all documents, certificates and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates and instruments relating to this financing have been duly authorized, executed and delivered by all of their parties other than the Board, and we have further assumed the due organization, existence and powers of such other parties other than the Board.

Reference is made to the opinion, of even date hereof, of Hunter, Smith & Davis, LLP as counsel to the Borrower, with respect to the organization of the Borrower, the status of the Borrower as an organization described in Section 501(c)(3) of the Code, the power of the Borrower to enter into and perform its obligations under the Corporation Documents (as defined in the Loan Agreement), and other related documents to which the Borrower is a party, and the authorization, execution, delivery and enforceability of the Corporation Documents and the other documents by and against the Borrower.

Based on the foregoing, we are of the opinion that, under current law:

1. The Bonds have been duly authorized and issued in accordance with the Act and the Indenture and, subject to paragraph 4 below, constitute valid, binding and enforceable limited obligations of the Board, payable as to principal, premium, if any, and interest solely from the revenues, receipts and payments pledged to such purpose under the Indenture. The Bonds do not constitute a debt of the Board within the meaning of any constitutional or statutory limitation and is not in any respect a general obligation of the Board nor are the Bonds payable in any manner by taxation.

2. The Indenture and the Loan Agreement have been duly authorized, executed and delivered by the Board and, subject to paragraph 4 below, constitute valid and binding agreements of the Board, enforceable against the Board in accordance with their terms.

3. The Board's right, title and interest in the Loan Agreement (except for Authority's rights to payment of costs and expenses, indemnification and exemption from liability thereunder and Authority's right to receive notices) and in Series 2011 Obligation have been assigned to the

Trustee and, subject to paragraph 4 below, such assignment constitutes a valid and binding assignment by the Board, enforceable against the Board in accordance with its terms.

4. The enforceability of the obligations of the parties under the Bonds, the Indenture and the Loan Agreement and the Board's assignment of the Loan Agreement and the Series 2011 Obligation to the Trustee, is subject to the provisions of applicable bankruptcy, insolvency, reorganization, moratorium and similar laws, now or hereafter in effect, relating to or affecting the enforcement of creditors' rights. The enforceability of such obligations is also subject to usual equitable principles, which may limit the specific enforcement of certain remedies but which do not affect the validity of such documents. Certain indemnity provisions may be unenforceable pursuant to court decisions invalidating such indemnity agreements on grounds of public policy.

5. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Further, for purposes of alternative minimum tax imposed on corporations (as defined for federal income tax purposes under Section 56 of the Code), interest on the Bonds must be included in the calculation of adjusted current earnings. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

In providing the opinions set forth in this paragraph, we are assuming continuing compliance with the Covenants (as hereinafter defined) by the Board and the Borrower. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, the requirement that the Borrower maintain its status as an organization described in Section 501 (c)(3) of the Code, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed or refinanced by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the United States Treasury. The Indenture, the Loan Agreement and the Tax Compliance Agreement contain covenants (the "Covenants") under which the Board and the Borrower have agreed to comply with such requirements. Failure by the Board or the Borrower to comply with their respective Covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes. Compliance by the Board with its respective Covenants does not require the Board to make any financial contribution for which it does not receive funds from the Borrower.

This opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents our judgment as to the proper treatment of interest on the Bonds for federal income tax purposes.

This opinion does not contain or provide any opinion or assurance regarding the future activities of the Board or the Borrower or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service. The Board and the Borrower have covenanted, however, to comply with the requirements of the Code.

Certain requirements and procedures contained, incorporated or referred to in the Indenture, the Loan Agreement and the Tax Compliance Agreement, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents.

6. The Bonds and the interest thereon are exempt from all state, county and municipal taxation in the State, except for inheritance, transfer and estate taxes and except to the extent that the Bonds and the interest thereon are included within the measure of certain privilege and excise taxes imposed under State law. We express no opinion regarding (i) other State tax consequences arising with respect to the Bonds or (ii) any consequences arising with respect to the Bonds under the tax laws of any state or local jurisdiction other than the State. Prospective purchasers of the Bonds should consult its own tax advisors regarding state and local tax issues not covered by this opinion, including the tax status of interest on the Bonds in a particular state or local jurisdiction other than the State.

Our services as Bond Counsel to the Board have been limited to rendering the foregoing opinions based on our review of such legal proceedings and other documents as we deem necessary to approve the validity of the Bonds and tax-exempt status of the interest on them and the enforceability of the Indenture and the Loan Agreement. The foregoing opinions are in no respect an opinion as to the business or financial resources of the Board or the Borrower or the ability of the Board or the Borrower to provide for the payment of the Bonds or the accuracy or completeness of any information, including the Board's Preliminary Official Statement dated April 28, 2011, and Official Statement dated May 2, 2011, that anyone may have relied upon in making the decision to purchase the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

APPENDIX E.

SUMMARY OF THE CONTINUING DISCLOSURE AGREEMENT

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SUMMARY OF THE CONTINUING DISCLOSURE AGREEMENT

The Continuing Disclosure Agreement will be entered into by the Corporation, Wellmont, Inc., Wellmont Foundation and Wellmont Hawkins County Memorial Hospital, Inc. The following is a summary of the proposed form of the Continuing Disclosure Agreement. It is expected that the executed Continuing Disclosure Agreement will conform to this summary in all material respects; however, in the event of conflict between the executed version of the Continuing Disclosure Agreement and this summary, the executed version will control.

This summary is being provided in the form of excerpts from the proposed Continuing Disclosure Agreement. Section references in these excerpts correspond to the sections of the proposed form of the Continuing Disclosure Agreement.

Excerpts from the proposed form of Continuing Disclosure Agreement:

Section 1. Definitions

Capitalized terms not otherwise defined in this Agreement shall have the meaning assigned in the Indenture. In addition, the terms set forth below shall have the meaning assigned unless the context clearly otherwise requires:

"**Bonds**" means the $76,165,000 Hospital Revenue Refunding Bonds (Wellmont Health System Project), Series 2011, issued by the Issuer.

"**Corporation**" means Wellmont Health System, a Tennessee nonprofit corporation and a 501(c)(3) organization under the Internal Revenue Code.

"**EMMA**" means the MSRB's Electronic Municipal Market Access System (EMMA) established pursuant to the Rule.

"**Indenture**" means the Bond Trust Indenture dated as of May 1, 2011 between the Issuer and the Trustee.

"**Issuer**" means The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee, a Tennessee public corporation.

"**MSRB**" means the Municipal Securities Rulemaking Board.

"**Obligors**" means the Corporation and the other Obligors described in the opening paragraph of this Agreement.

"**Official Statement**" means the Official Statement dated May 2, 2011 with respect to the Bonds.

"**Rule**" means Rule 15c2-12 adopted by the Securities and Exchange Commission, as the same may be amended from time to time.

"**Trustee**" means The Bank of New York Mellon Trust Company, N.A., as trustee under the Indenture.

Section 2. Purpose and Beneficiaries of this Agreement

This Agreement is entered into by the Obligors for the benefit of the holders of the Bonds in order to assist the underwriter or underwriters for the Bonds in complying with the requirements of the Rule.

Section 3. Annual Financial Information

(a) Within 150 days after the end of each fiscal year, the Obligors shall file with the MSRB the following information:

(1) ***Operating data.*** Information about operating statistics for such fiscal year, and comparative information for the prior fiscal year, but not partial year information, substantially in the form included in APPENDIX A to the Official Statement under the following heading:

"FACILITIES—Historical Utilization"

(2) ***Financial information.*** Information about financial performance for such fiscal year, and comparative information for the prior fiscal year, but not partial year information, substantially in the form included in APPENDIX A to the Official Statement under the following headings:

"HISTORICAL FINANCIAL INFORMATION—Summary Financial Information"

"HISTORICAL FINANCIAL INFORMATION—Sources of Patient Service Revenue"

"HISTORICAL FINANCIAL INFORMATION—Estimated Days Cash on Hand"

"HISTORICAL FINANCIAL INFORMATION—Historical Annual Debt Service Coverage"

(b) The Obligors may omit or modify any part of the annual information required by this section if the operations to which it relates have been discontinued or materially changed. The Obligors will include an explanation to that effect as part of the annual information for the year in which such event first occurs.

(c) If any amendment is made to this Agreement, the annual information for the year in which such amendment is made shall contain a description of the reasons for such amendment and its impact on the type of information being provided.

Section 4. Audited Financial Statements

(a) Within 30 days after receipt by the Obligors, but in no event more than 150 days after the end of each fiscal year, the Obligors shall file with the MSRB audited financial statements of the Corporation and its affiliates. The audited financial statements shall be prepared on a basis consistent with the accounting principles and auditing standards used to prepare the financial statements attached as APPENDIX B to the Official Statement, as such standards may be modified from time to time under generally accepted accounting principles and auditing standards applicable to the Obligors.

(b) The Obligors operate acute care hospitals and related healthcare facilities that are part of a healthcare delivery system that is managed and supervised by the Corporation. The Corporation serves as the parent organization for the Obligors. The annual audited financial statements of the Corporation are consolidated statements that provide financial information with respect to the Corporation and its affiliates described in the audit report, including the other Obligors. The Obligors do not have audited financial statements prepared for the Obligors alone. The Obligors intend to comply with their continuing disclosure obligations under this Agreement by providing consolidated annual audited financial information for the Corporation and its affiliates that will include information about the Obligors substantially in the form included in APPENDIX B to the Official Statement.

Section 5. Quarterly Financial Information

(a) Within 45 days after the end of each of the first three quarters of the fiscal year, the Obligors shall file with the MSRB the following information:

(1) ***Operating data.*** Information about operating statistics for the period ending on the last day of such quarter, together with comparative information for the corresponding period of the prior fiscal

year, substantially in the form included in APPENDIX A to the Official Statement under the following heading:

"FACILITIES—Historical Utilization"

(2) ***Financial information.*** Information about financial performance for the period ending on the last day of such quarter, together with comparative information for the corresponding period of the prior fiscal year, substantially in the form included in APPENDIX A to the Official Statement under the following headings:

"HISTORICAL FINANCIAL INFORMATION—Summary Financial Information"

"HISTORICAL FINANCIAL INFORMATION—Sources of Patient Service Revenue"

"HISTORICAL FINANCIAL INFORMATION—Estimated Days Cash on Hand"

"HISTORICAL FINANCIAL INFORMATION—Historical Annual Debt Service Coverage"

(b) The Obligors may omit or modify any part of the quarterly information required by this section if the operations to which it relates have been discontinued or materially changed. The Obligors will include an explanation to that effect as part of the quarterly information for the quarter in which such event first occurs (or, if such event occurs in the last quarter of the fiscal year, as part of the annual financial information provided by Section 4).

Section 6. Event Disclosure

(a) In a timely manner not in excess of 10 business days after the occurrence of the event, the Obligors shall file with the MSRB notice of the occurrence of any of the following events affecting the Bonds:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults, if material;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice 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;

(7) modifications to rights of the holders of the Bonds, if material;

(8) Bond calls, if material, and tender offers;

(9) defeasances;

(10) release, substitution or sale of property securing repayment of the Bonds, if material;

(11) rating changes;

(12) bankruptcy, insolvency, receivership or similar events affecting an Obligor;

(13) the consummation of a merger, consolidation, or acquisition involving an Obligor or the sale of all or substantially all of the assets of an Obligor, 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

(14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) In a timely manner the Obligors shall file with the MSRB notice of failure to make a filing, on or before the date specified in this Agreement, of annual information required by Section 3 or Section 4 of this Agreement.

Section 7. Consequences of Failure to File

If the Obligors fail to comply with any provision of this Agreement, the holder of any Bond may seek mandamus or specific performance by court order, to cause the Obligors to comply with their obligations under this Agreement. A default under this Agreement shall not be deemed an event of default under the Indenture or any other financing document related to the issuance of the Bonds, including without limitation the Loan Agreement and the Master Indenture referred to in the Indenture. The sole remedy under this Agreement shall be an action to compel performance.

Section 8. Amendment

This Agreement may be amended by the Obligors if the amendment is required by, or consistent with, changes to, or interpretations of, the Rule made by governmental authority after the Bonds are issued.

Section 9. Termination

(a) This Agreement shall terminate when (i) all Bonds have been paid or defeased in accordance with the terms of the Indenture or (ii) the continuing disclosure obligation of the Rule is no longer applicable to the Bonds.

(b) Any Obligor may terminate its obligations under this Agreement if and when such Obligor no longer remains an obligated person with respect to the Bonds.

Section 10. Filing

(a) The Obligors shall make the information filings required or permitted by this Agreement with the MSRB through the MSRB's Electronic Municipal Market Access System (EMMA).

(b) All documents provided to the MSRB pursuant to this Agreement shall be filed in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

(c) Information about the filing system and requirements of EMMA is available at www.emma.msrb.org.

Section 11. Additional Information

The Obligors may, in their sole discretion, file with the MSRB additional notices with information not required by this Agreement or the Rule. Such additional filings may be discontinued by the Obligors at any time in their sole discretion.

Section 12. No Indirect Beneficiaries

This Agreement is for the benefit of the underwriter or underwriters for the Bonds and the holders of the Bonds and shall not create rights or benefits for any other person or entity.

Section 13. Agent for Filings

The Obligors may appoint an agent for purposes of making the filings required or permitted by this Agreement, but no such appointment, or failure of such agent to perform, shall relieve the Obligors of their responsibilities under this Agreement.

Section 14. Governing Law

This Agreement shall be governed by the laws of the State of Tennessee.

Dated: ______________.

[Execution by Obligors]

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APPENDIX F.

THE DTC BOOK ENTRY SYSTEM

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The DTC Book Entry System

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds (the "Securities"). The Securities 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 Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. 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 instrument from over 100 countries that DTC's participants ("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 Standard & Poor's highest rating: AAA. 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 and www.dtc.org.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 are, however, 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 Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. 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. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within one issue 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.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions and dividend payments on the Securities 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 Issuer or Trustee on the payable 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 Issuer, or the Trustee, 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 Issuer and 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.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Trustee. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Trustee's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Issuer or Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

11. The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer and the Corporation believe to be reliable, but neither the Issuer nor the Corporation takes responsibility for the accuracy thereof.

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Exhibit 11.5

Attachment B

Wellmont Audits - External Audited Financial Statements for 2011 to 2014

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

WELLMONT HEALTH SYSTEM AND AFFILIATES

Table of Contents

KPMG LLP
Suite 1000
401 Commerce Street
Nashville, TN 37219-2422

Independent Auditors' Report

The Board of Directors
Wellmont Health System:

We have audited the accompanying consolidated balance sheets of Wellmont Health System and affiliates (Wellmont) 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 Wellmont'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 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 Wellmont's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wellmont Health System and affiliates as of June 30, 2010 and 2009, and the consolidated results of their operations and changes in net assets, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 28, 2010

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Balance Sheets

June 30, 2010 and 2009

(Dollars in thousands)

Assets		**2010**	**2009**
Current assets:			
Cash and cash equivalents	$	35,711	60,889
Assets limited as to use, required for current liabilities		1,815	2,201
Patient accounts receivable, less allowance for uncollectible accounts of approximately $25,113 and $27,890 in 2010 and 2009, respectively		94,057	98,071
Other receivables		10,919	11,173
Inventories		18,294	17,169
Prepaid expenses and other current assets		7,003	6,040
Total current assets		167,799	195,543
Assets limited as to use, net of current portion		301,807	245,600
Land, buildings, and equipment, net		450,205	442,610
Other assets:			
Long-term investments		32,391	31,974
Investments in affiliates		32,019	31,976
Deferred debt expense, net		4,644	4,824
Goodwill, net		9,501	9,509
Other		730	798
		79,285	79,081
Total assets	$	999,096	962,834
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	11,958	13,197
Lines of credit/short-term note payable		14,000	15,811
Accounts payable and accrued expenses		74,679	77,139
Estimated third-party payor settlements		11,672	12,441
Current portion of other long-term liabilities		7,251	6,352
Total current liabilities		119,560	124,940
Long-term debt, less current portion		467,833	474,608
Other long-term liabilities, less current portion		47,364	38,422
Total liabilities		634,757	637,970
Net assets:			
Unrestricted		358,620	320,030
Temporarily restricted		4,551	3,589
Permanently restricted		1,168	1,245
Total net assets		364,339	324,864
Commitments and contingencies			
Total liabilities and net assets	$	999,096	962,834

See accompanying notes to consolidated financial statements.

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2010 and 2009

(Dollars in thousands)

		2010	2009
Revenue:			
Net patient service revenue	$	692,920	680,056
Other revenues		31,472	27,842
Total revenue		724,392	707,898
Expenses:			
Salaries and benefits		310,667	323,801
Medical supplies and drugs		150,143	141,044
Purchased services		74,922	81,031
Interest		20,110	16,013
Provision for bad debts		35,293	33,402
Depreciation and amortization		43,711	42,957
Other		66,734	62,604
Total expenses		701,580	700,852
Income from operations		22,812	7,046
Nonoperating gains (losses):			
Investment income		1,012	4,181
Derivative valuation adjustments		(2,693)	(5,747)
Other, net		(1,870)	(625)
Nonoperating losses, net		(3,551)	(2,191)
Revenue and gains in excess of expenses and losses before discontinued operations		19,261	4,855
Discontinued operations		(1,109)	(4,455)
Revenue and gains in excess of expenses and losses		18,152	400
Other changes in unrestricted net assets:			
Change in net unrealized gains (losses) on investments		22,312	(60,663)
Net assets released from restrictions for additions to land, buildings, and equipment		1,555	2,758
Change in the funded status of benefit plans and other		(3,429)	(13,568)
Increase (decrease) in unrestricted net assets		38,590	(71,073)
Changes in temporarily restricted net assets:			
Contributions		2,934	1,944
Net assets released from temporary restrictions		(1,972)	(3,154)
Increase (decrease) in temporarily restricted net assets		962	(1,210)
Changes in permanently restricted net assets – investment (loss) income		(77)	645
Change in net assets		39,475	(71,638)
Net assets, beginning of year		324,864	396,502
Net assets, end of year	$	364,339	324,864

See accompanying notes to consolidated financial statements.

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2010 and 2009

(Dollars in thousands)

		2010	2009
Cash flows from operating activities:			
Change in net assets	$	39,475	(71,638)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		43,755	43,393
Loss on disposal of land, buildings, and equipment		1,282	659
Equity in gain of affiliated organizations		(6,773)	(5,549)
Amortization of deferred financing costs		180	238
Net realized and unrealized (gains) losses on investments, other than trading		(17,994)	66,199
Provision for bad debts		35,950	33,821
Change in fair value of derivative instruments		2,693	5,747
Changes in assets and liabilities:			
Patient accounts receivable		(31,936)	(22,378)
Other current assets		(2,088)	(385)
Other assets		322	3,735
Accounts payable and accrued expenses		2,722	(5,796)
Estimated third-party payor settlements		(769)	10,355
Other current liabilities		899	1,437
Other liabilities		7,933	11,101
Net cash provided by operating activities		75,651	70,939
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		88,887	67,580
Purchase of investments		(127,131)	(25,207)
Purchase of land, buildings, and equipment		(55,684)	(86,623)
Proceeds from the sale of buildings and equipment		4,357	31,251
Cash paid for acquisitions		(2,421)	—
Investment in affiliated organizations		—	(4,453)
Distributions from affiliated organizations		6,730	7,181
Distributions to affiliated organizations		(1,684)	(924)
Net cash used in investing activities		(86,946)	(11,195)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		14,000	484
Payments on long-term debt		(12,083)	(11,005)
Payments on line of credit		(15,800)	(2,121)
Net cash used in financing activities		(13,883)	(12,642)
Net (decrease) increase in cash and cash equivalents		(25,178)	47,102
Cash and cash equivalents, beginning of year		60,889	13,787
Cash and cash equivalents, end of year	$	35,711	60,889

Supplemental disclosures of noncash items:

Wellmont entered into capital lease obligations for buildings and equipment in the amount of $1,290 and $18,050 in 2010 and 2009, respectively.

Additions to property and equipment financed through current liabilities of $5,182 and $5,977 in 2010 and 2009, respectively.

See accompanying notes to consolidated financial statements.

(1) Operations and Basis of Presentation

Wellmont Health System (Wellmont) was formed to assume operations of Bristol Regional Medical Center (BRMC) and Holston Valley Health Care, Inc. (HVHC), including Holston Valley Medical Center, Inc. (HVMC), and to act as sole corporate member of its consolidated foundations. Effective July 1, 1996, under terms of an agreement and plan of consolidation and merger, BRMC and HVHC, including HVMC, were merged and consolidated into Wellmont. Effective January 1, 1997, Lonesome Pine Hospital (LPH), a Virginia corporation, was merged into Wellmont under terms of a plan of merger and merger agreement. Effective July 1, 2000, Hawkins County Memorial Hospital (HCMH) transferred its operations and operating assets to Wellmont Hawkins County Memorial Hospital (WHCMH), a tax-exempt organization that is wholly owned and controlled by Wellmont. Hancock County Hospital (HCH), a critical access hospital, was opened in March 2005 to help provide for the immediate healthcare needs of the residents of Sneedville and the surrounding counties. As of July 16, 2007, Wellmont acquired Jenkins Community Hospital (Jenkins) in Kentucky. As of August 1, 2007, Wellmont acquired two hospitals in Virginia, Lee Regional Medical Center in Pennington Gap and Mountain View Regional Medical Center in Norton. On May 30, 2008, Wellmont acquired the Holston Valley Cath Lab, an outpatient lab. On May 1, 2010, Wellmont acquired Cardiovascular Associates.

As of April 30, 2009, Wellmont closed Jenkins, sold the majority of the facility's property and equipment to Appalachian Regional Healthcare, Inc for $1,000 and recorded a loss on sale of approximately $256. The consolidated financial statements for the years ended June 30, 2010 and 2009 present Jenkins as a discontinued operation. The operating losses of $474 and $3,659 for the years ended June 30, 2010 and 2009, respectively, and the impairment are included in the classification of discontinued operations.

As of June 30, 2010, it was announced that Wellmont will sell the majority of Medical Mall Pharmacy's assets to a national pharmacy company for $1,300 plus inventory value. The consolidated financial statements for the years ended June 30, 2010 and 2009 present Medical Mall Pharmacy as a discontinued operation. The operating losses of $635 and $540 for the years ended June 30, 2010 and 2009, respectively, are included in the classification of discontinued operations. The sale was completed on September 23, 2010.

All acute care operations remain separately licensed and are treated as operating divisions within Wellmont. Wellmont's operations consist primarily of the delivery of healthcare services in northeast Tennessee and southwest Virginia.

The consolidated financial statements include the acute care operations of the above entities along with:

- Wellmont Foundation (the Foundation), which was created from the merger of Bristol Regional Medical Center Foundation and Holston Valley Health Care Foundation, Inc. The Foundation conducts fund-raising activities for the benefit of Wellmont.
- Wellmont, Inc., a wholly owned taxable subsidiary of Wellmont, formed as the holding company of various other taxable subsidiaries that provide medical collection and medical laundry services, operate a pharmacy and physician practices, provide other healthcare-related services, and invest in affiliates and other activities.

- The Alzheimer's Center of East Tennessee was merged into Wellmont and changed its name to Wellmont Madison House effective September 1, 1997. Wellmont is the sole corporate member and the consolidated financial statements include the operations of this entity.

All significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

(2) Significant Accounting Policies

A summary of significant accounting policies follows:

(a) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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. Significant estimates include: allowances for contractual adjustments and bad debts; third-party payor settlements; valuation of investments, land, buildings, equipment, and goodwill; and self-insurance and other liabilities. Actual results could differ from these estimates.

(b) Cash and Cash Equivalents

Wellmont considers all highly liquid investments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board of director's designation or other arrangements under trust agreements, to be cash equivalents.

(c) Investments

Marketable equity securities and debt securities are recorded at fair value and classified as other than trading. Fair value is determined primarily using quoted prices (unadjusted) in active markets for identical assets or liabilities that Wellmont has the ability to access at the measurement date. However, Wellmont also uses observable and unobservable inputs for investments without quoted market prices to determine the fair value of certain investments at the measurement date. Investments in limited partnerships are recorded at fair value as determined by the partnership using net asset value. Wellmont elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent),* to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. Investments in affiliates in which Wellmont has significant influence but does not control are reported on the equity method of accounting, which represents Wellmont's equity in the underlying net book value. Long-term investments include those investments that have not been designated by the board of directors for specific purposes and are also not intended to be used for the liquidation of current liabilities. Investment income is recognized when earned.

Realized gains and losses are determined on the specific-identification method and included in investment income with interest and dividends. Investment income is reported net of related investment fees. Unrealized gains and losses are included in other changes in unrestricted net assets except for losses determined to be other than temporary, which are considered realized losses and included in investment income.

On July 1, 2008, Wellmont adopted new guidance issued by the Financial Accounting Standards Board (FASB), which defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements now codified into Accounting Standards Codification (ASC) 850. ASC 850 statement does not require any new fair value measures and did not have a material impact on Wellmont's consolidated financial statements for the year ended June 30, 2009, however, expanded fair value disclosures have been provided in note 19.

(d) Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under bond indenture and self-insurance agreements, as well as designated assets set aside by the board of directors for future capital improvements, over which the board of directors retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of Wellmont have been reclassified to current assets in the accompanying consolidated balance sheets.

(e) Inventories

Inventories are stated at the lower of cost or market value and are valued principally by the first-in, first-out, and average-cost methods.

(f) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased, or fair value at date of donation. Depreciation is computed using the straight-line method based on the estimated useful life of the asset, ranging from 3 to 40 years. Buildings and equipment held under capital leases are recorded at net present value of future lease payments and are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Costs of maintenance and repairs are expensed as incurred. Upon sale or retirement of land, buildings, or equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss, if any, is included in other revenues on the consolidated statements of operations and changes in net assets. 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.

Wellmont evaluates long-lived assets for impairment on annual basis. Long-lived assets are considered to be impaired whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable from future cash flows. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows

(Continued)

(Dollars in thousands)

expected to be generated by the asset. When such assets are considered to be impaired, the impairment loss recognized is measured by the amount by which the carrying value of the asset exceeds the fair value of the asset.

(g) Goodwill

Goodwill represents the difference between the cost of net assets acquired and estimated fair value at purchase date, and is being amortized using the straight-line method over periods of 5 to 15 years. For goodwill acquired by its taxable entities, the FASB has implemented a nonamortization approach to goodwill. However, the effective date for not-for-profit entities is not effective until fiscal year 2011 for Wellmont and, as such, Wellmont continues to amortize the goodwill associated with its tax-exempt entities. Wellmont assesses the recoverability and the amortization period of goodwill for not-for-profit entities by determining whether the amount can be recovered through undiscounted cash flows of the business acquired, excluding interest and amortization, over the remaining amortization period. If impairment is indicated by this analysis, measurement of the impairment recognized is based on the difference between the fair value and the carrying amount of the asset. Management considers external factors relating to each acquired business, including local market developments, regional and national trends, regulatory developments, and other pertinent factors in making its assessment. Goodwill for Wellmont's for-profit/taxable entities is reviewed for impairment at least annually in accordance with the provisions of FASB ASC 350, *Intangibles – Goodwill and Other* (Statement No. 142, *Goodwill and Other Intangible Assets*). The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. A summary of goodwill and related amortization for the years ended June 30 follows:

	2009	Additions	Decreases	2010
Goodwill	$ 12,604	—	—	12,604
Amortization	(3,095)	(8)	—	(3,103)
	$ 9,509	(8)	—	9,501

(Dollars in thousands)

	2008	Additions	Decreases	2009
Goodwill	$ 12,771	—	(167)	12,604
Amortization	(3,130)	(30)	65	(3,095)
	$ 9,641	(30)	(102)	9,509

(h) Deferred Debt Expense

Deferred debt expense is amortized over the life of the related bond issues using the effective-interest method.

(i) Derivative Financial Instruments

As further described in note 12, Wellmont is a party to interest rate swap and other derivative agreements. These financial instruments are not designated as hedges and are presented at estimated fair market value in the accompanying consolidated balance sheets. These fair values are based on the estimated amount Wellmont would receive, or be required to pay, to enter into equivalent agreements with a third party at the valuation date. Due to the nature of these financial instruments, such estimates are subject to significant change in the near term. Wellmont recognizes changes in the fair values of derivatives as nonoperating gains or losses in the consolidated statements of operations and changes in net assets. The cash settlements resulting from these interest rate swaps are reported as interest expense in the consolidated statements of operations and changes in net assets.

(j) Asset Retirement Obligations

Asset retirement obligations (AROs) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value, and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Wellmont records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Wellmont derecognizes ARO liabilities when the related obligations are settled.

(k) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Wellmont has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Wellmont in perpetuity. Generally, donors of permanently restricted assets permit use of all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets relate primarily to amounts held by the Foundation and include amounts restricted for future capital expenditures and for operations of such areas as children's healthcare services, hospice, and cancer research.

(Continued)

Net assets are released from restrictions by Wellmont incurring expenses that satisfy the restricted purposes. Such net assets released during 2010 and 2009 primarily included amounts related to the purchase of buildings and equipment for pediatrics, cancer, and other healthcare operations.

(l) Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts expected to be collected. Net patient service revenue includes amounts estimated by management to be reimbursable by patients and various third-party payors under provisions of reimbursement formulas in effect, including retroactive adjustments under reimbursement agreements. Estimated retroactive adjustments are accrued in the period related services are rendered and adjusted in future periods as final and other settlements are determined. Wellmont provides care to patients who meet criteria under its charity care policy without charge or at amounts less than its established rates. Because Wellmont does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenue.

Patient accounts receivable are reported net of both an allowance for uncollectible accounts and an allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare, Medicaid, and other third-party payment programs. Wellmont's policy does not require collateral or other security for patient accounts receivable. Wellmont routinely obtains assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans, or policies.

(m) Revenue and Gains in Excess of Expenses and Losses

The consolidated statements of operations and changes in net assets include revenue and gains in excess of expenses and losses. Changes in unrestricted net assets that are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include changes in net unrealized gains (losses) on investments other-than-trading securities, changes in the funded status of Wellmont's defined benefit plans, contributions of long-lived assets, including assets acquired using contributions that, by donor restriction, were to be used for the purpose of acquiring such assets, and cumulative effects of changes in accounting principles.

For purposes of financial statement display, those activities directly associated with Wellmont's mission of providing healthcare services are considered to be operating activities. Nonoperating activities primarily include investment and related activities. Other operating revenues primarily include cafeteria, rental, and income from affiliates.

(n) Contributed Resources

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted contributions, and are excluded from revenue and gains in excess of expenses and losses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit

(Continued)

donor stipulations about how long those long-lived assets must be maintained, expiration of donor restrictions is reported when the donated or acquired long-lived assets are placed in service.

Unconditional promises to give cash or other assets are reported at fair value at the date the promise is received. Gifts are reported as either a temporarily or permanently restricted contribution if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions. Unrestricted contributions are included in other revenues.

(o) Federal Income Taxes

The Wellmont entities are primarily classified as organizations exempt from federal income taxes under Section 501(a) as entities described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included for these entities in the consolidated financial statements. The operations of Wellmont, Inc. and its subsidiaries are subject to state and federal income taxes, which are accounted for in accordance with ASC 740, *Income Taxes*; however, such amounts are not material.

On July 1, 2007, Wellmont adopted new guidance issued by on the accounting for uncertainty in income tax positions now codified into ASC 740. It also provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. There was no impact on Wellmont's consolidated financial statements as a result of the adoption of the new guidance.

(p) New Accounting Pronouncements

Effective July 1, 2008, Wellmont adopted new guidance issued by FASB, which provides guidance on the net asset classification of donor-restricted endowment funds for a tax-exempt organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) now codified into ASC 958, *Not-for-Profit Entities*. Effective July 1, 2007, the State of Tennessee adopted legislation that incorporates the provisions outlined in UPMIFA. Wellmont's endowments consist solely of donor-restricted endowment funds. Wellmont's endowments consist of four individual funds established for a variety of purposes.

Wellmont has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Wellmont classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are approved for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Wellmont considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the organization and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the organization; and (7) the investment policies of the organization.

On June 30, 2009, Wellmont adopted guidance issued by the FASB for subsequent events, now codified into ASC 855, *Subsequent Events*. ASC 855 defines the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure, the circumstances under which an organization shall recognize events occurring after the balance sheet date and the disclosures that an organization shall make about those events or transactions. ASC 855 defines two types of subsequent events. The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent to the process of preparing financial statements (i.e., recognized subsequent events). The second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the date (i.e., nonrecognized event).

Management evaluated all events and transactions that occurred through October 28, 2010. Other than described in note 11, Wellmont did not have any material subsequent events during this period.

On July 1, 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles* (Statement 168). Statement 168 is the single source of authoritative nongovernmental GAAP, superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force, and related accounting literature. Statement 168 reorganizes the thousands of pages of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. Statement 168 is effective for interim and annual periods ending after September 15, 2009. The adoption of Statement 168 had no significant effect on the Wellmont's consolidated financial statements.

(q) Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 consolidated financial statement presentation.

(Dollars in thousands)

(3) 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 consolidated statements of operations and changes in net assets is as follows for the years ended June 30:

		2010	2009
Gross patient service charges	$	2,158,847	2,178,018
Less:			
Contractual adjustments and other discounts		(1,411,435)	(1,440,519)
Charity care		(54,492)	(57,443)
		(1,465,927)	(1,497,962)
Net patient service revenue	$	692,920	680,056

(4) Third-Party Reimbursement Arrangements

Wellmont renders services to patients under contractual arrangements with the Medicare and Medicaid programs. The Medicaid program in Tennessee was replaced with a managed care program known as TennCare, which was designed to cover previous Medicaid eligible enrollees. Amounts earned under these contractual arrangements are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. Management believes that adequate provision has been made for any adjustments that may result from such reviews. Participation in these programs subjects Wellmont to significant rules and regulations; failure to adhere to such could result in fines, penalties, or expulsion from the programs.

Wellmont contracts with various managed care organizations under the TennCare program. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates, including diagnostic-related group assignments, fee schedules, and per diem amounts. Reimbursement under the Virginia Medicaid program is also based upon prospectively determined amounts.

The Medicare program pays for the costs of inpatient services on a prospective basis. Payments are based upon diagnostic-related group assignments, which are determined by the patient’s clinical diagnosis and medical procedures utilized. Wellmont receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid-eligible and other low income patients. Outpatient services are also reimbursed primarily on a prospectively determined basis.

(Dollars in thousands)

Net patient service revenue in 2010 and 2009 related to Medicare, TennCare, and Virginia Medicaid and net patient accounts receivable at June 30, 2010 and 2009 from Medicare, TennCare, and Virginia Medicaid were as follows:

		2010	2009
Net patient service revenue:			
Medicare	$	277,372	272,259
TennCare		22,918	22,509
Virginia Medicaid		23,536	19,036
Net patient accounts receivable:			
Medicare	$	41,125	39,852
TennCare		2,206	4,072
Virginia Medicaid		3,739	3,172

Wellmont has filed cost reports with Medicare and Virginia Medicaid. The cost reports are subject to final settlement after audits by the fiscal intermediary. The Medicare and Virginia Medicaid cost reports have been audited by the intermediary through June 30, 2006.

Wellmont has also entered into reimbursement agreements with certain commercial insurance companies, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, per diem rates, and discounts from established charges.

Net patient service revenue is reported at the net amounts billed to patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated retroactive adjustments are accrued in the period the related services are rendered and adjusted in future periods as changes in estimated provisions and final settlements are determined. Net patient service revenue increased (decreased) approximately $863 and $(2,600) in 2010 and 2009, respectively, due to final settlements and revised estimates in excess of amounts previously recorded, removal of allowances previously estimated that are no longer necessary as a result of final settlements, and years that are not longer subject to audits, reviews, and investigations.

Estimated settlements recorded at June 30, 2010 could differ materially from actual settlements based on the results of third-party audits.

(5) Charity Care and Community Services

Wellmont accepts all patients within its primary service area regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies that consider, among other factors, generally recognized poverty income levels.

Wellmont maintains records to identify and monitor the level of charity care it provides. Charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services, and the equivalent percentage of charity care patients to all patients serviced were $54,492, $15,567, and

(Dollars in thousands)

2.52%, respectively, for the year ended June 30, 2010 and $57,443, $16,203, and 2.63%, respectively, for the year ended June 30, 2009.

In addition to the charity care services described above, Wellmont provides a number of other services to benefit the indigent for which little or no payment is received. Medicare, Medicaid, and State indigent programs do not cover the full cost of those services. The shortfall between actual receipts from those programs and Wellmont's cost of providing care to those patients totaled $55,461 and $57,212 for the years ended June 30, 2010 and 2009, respectively.

Wellmont also provides services to the community at large for which it receives little or no payment. Health evaluations, screening programs, and specific services for the elderly and homebound are other services supplied. Wellmont also provides public health education, trains new health professionals, and conducts health research.

(6) Investment in Affiliates

Wellmont has investments with other healthcare providers, which include hospital, home care, regional laboratories, and other healthcare-related organizations. Wellmont records its share of equity in the operations of the respective organizations. Equity in net income of affiliates was approximately $6,773 and $5,549 for the years ended June 30, 2010 and 2009, respectively, and is included in other operating revenue in the consolidated financial statements. Wellmont made additional contributions of $0 and $4,453 during 2010 and 2009, respectively, to affiliates, which increased Wellmont's overall investment in affiliates. Wellmont received distributions of $6,730 and $7,181 during 2010 and 2009, respectively, which reduced Wellmont's overall investment in the affiliates.

The following table summarizes the unaudited aggregate financial information of Wellmont's investments in affiliates:

		2010	2009
Total assets	$	129,720	137,737
Total liabilities		13,943	39,913
Total net assets	$	115,777	97,824
Net revenues	$	166,815	178,253
Expenses		142,534	159,004
Revenues in excess of expenses	$	24,281	19,249

(Dollars in thousands)

Wellmont's equity investment in these affiliates and its ownership percentage as of June 30, 2010 and 2009 are as follows:

	Amount		Percentage	
	2010	**2009**	**2010**	**2009**
Takoma Regional Hospital	$ 12,645	12,302	60%	60%
Holston Valley Imaging Center (HVIC)	8,048	9,047	75	75
Advanced Home Care (AHC)	6,092	6,092	6	6
Spectrum Tennessee Network	3,850	3,462	20	20
Others	1,384	1,073	4% – 50%	4% – 50%
	$ 32,019	31,976		

Wellmont provided billing and management services to the affiliates. Income recognized by Wellmont for the services was $1,766 in 2010 and $1,501 in 2009 and is included in other revenues.

Included in other receivables are $124 and $135 as of June 30, 2010 and 2009, respectively, of amounts due to Wellmont from these entities.

Although Wellmont's ownership percentage in Takoma Regional Hospital and HVIC is greater than 50%, Wellmont does not consolidate these entities because Wellmont only has a 50% representation on each respective board and does not have control over these entities.

(Dollars in thousands)

(7) Investments

Long-term investments, including assets limited as to use, at June 30 are reported at fair value and consist of the following:

		2010	2009
Assets limited as to use by Board for capital improvements:			
Stock mutual funds	$	109,629	108,036
Bond mutual funds		71,698	5,910
Cash and money market funds		1,474	2,517
Real estate funds		7,468	5,419
Alternative investments (private equity, hedge funds, commingled funds, and real estate funds):			
Liquid		33,915	12,415
Illiquid		23,490	23,171
		247,674	157,468
Assets limited as to use under self-insurance agreements:			
Corporate bonds		6,867	7,464
Cash and money market funds		558	643
		7,425	8,107
Assets limited as to use under bond indenture agreements:			
Cash and money market funds		48,523	82,226
Less assets limited as to use that are required for current liabilities		1,815	2,201
Assets limited as to use, net of current portion	$	301,807	245,600
Long-term investments:			
Stock mutual funds	$	9,279	8,631
Bond mutual funds		7,599	3,648
Preferred equity investment and related options		11,512	11,512
Cash, money market funds, and certificates of deposit		287	5,202
Real estate funds		1,722	1,255
Alternative investments (private equity, hedge funds, commingled funds, and real estate funds):			
Liquid		1,992	1,726
Total long-term investments	$	32,391	31,974

Investments in certain alternative limited partnership investments contain agreements whereby Wellmont is committed to contribute approximately $12,112 as of June 30, 2010 of additional funds to the limited partnerships in the form of capital calls at the discretion of the general partner, of which $417 was paid subsequent to June 30, 2010.

(Dollars in thousands)

Wellmont has invested $10,000 in the preferred equity of a regional managed services organization and $1,512 on a right of first refusal related to any future sale of this organization. This equity has a guaranteed annual return of at least 6.5% of the outstanding preferred equity balance.

Wellmont's investments are concentrated in stock and bond mutual funds. In the event of a downward trend in the stock and bond markets, Wellmont's overall market value of net assets could be adversely affected by a material amount. Investments in alternative investments are generally illiquid investments whose value is determined by the general partner such as hedge funds, private equity, commingled funds, and real estate funds. Distributions are only at the discretion of a voting majority of the general partners.

Wellmont evaluates whether unrealized losses on investment securities indicate other-than-temporary impairment. Based on this evaluation, the Company recognized other-than-temporary impairment losses of $8,233 and $4,654 on investments as of June 30, 2010 and 2009, respectively. The unrealized losses on these mutual funds were primarily caused by the overall decline in the world's economy in 2009 and 2010. Other-than-temporary impairment losses are considered as realized losses and are reported within "investment income" in the consolidated statements of operations and changes in net assets.

Gross unrealized losses on investments for which other-than-temporary impairments have not been recognized and the fair values of those investments, aggregated by the length of time that individual investments have been in a continuous unrealized loss position, at June 30, 2010 and 2009, were as follows:

	June 30, 2010					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
Alternative investments	$ —	—	910	4,219	910	4,219
Stock mutual funds	2,184	29,658	24,817	83,713	27,001	113,371
	$ 2,184	29,658	25,727	87,932	27,911	117,590

	June 30, 2009					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
Bond mutual funds	$ 191	4,112	—	—	191	4,112
Alternative investments	5,525	16,227	4,144	7,120	9,669	23,347
Stock mutual funds	22,243	74,147	17,460	35,983	39,703	110,130
	$ 27,959	94,486	21,604	43,103	49,563	137,589

(Dollars in thousands)

Investment income is comprised of the following for the years ended June 30:

		2010	2009
Interest and dividends, net of amounts capitalized	$	5,330	9,717
Realized losses on investments, including $8,233 and $4,654 recognized losses related to other-than-temporary impairments in 2010 and 2009, respectively.		(4,318)	(5,536)
Investment income, net	$	1,012	4,181
Change in net unrealized gains (losses) on investments	$	22,312	(60,663)

(8) Land, Buildings, and Equipment

Land, buildings, and equipment at June 30 consist of the following:

		2010	2009
Land	$	41,210	44,149
Buildings and improvements		488,285	392,593
Equipment		327,896	303,805
Buildings and equipment under capital lease obligations		39,591	38,734
		896,982	779,281
Less accumulated depreciation		(459,935)	(418,399)
		437,047	360,882
Construction in progress		13,158	81,728
Land, buildings, and equipment	$	450,205	442,610

Depreciation expense for the years ended June 30, 2010 and 2009 was $43,755 and $43,393, respectively. Included in depreciation expense is amortization related to capitalized software and equipment under capital leases. Accumulated amortization for equipment under capitalized software and lease obligations was $13,266 and $9,109 as of June 30, 2010 and 2009, respectively.

(Dollars in thousands)

(9) Other Long-Term Liabilities

Other long-term liabilities at June 30 consist of the following:

		2010	2009
Workers' compensation liability	$	6,606	5,706
Professional and general liability		11,183	9,494
Postretirement benefit obligation		5,861	5,653
Asset retirement obligation		3,710	3,621
Deferred gain on sale of assets		1,382	2,136
Derivative liability		12,943	10,250
Pension benefit liability		10,018	6,709
Other		2,912	1,205
		54,615	44,774
Less current portion		(7,251)	(6,352)
Total other long-term liabilities	$	47,364	38,422

(10) Lines of Credit/Notes Payable

During 2008, Wellmont entered into three lines of credit for $15,000, $1,800, and $10,000. The $15,000 line of credit had a variable interest rate based upon LIBOR plus 1% and a termination date of August 2009; at June 30, 2009, $14,000 was outstanding on this line. During 2010, the $15,000 line of credit was paid in full with a $14,000 note payable, which was initiated with one bank to pay off the line of credit. The $14,000 note payable has a variable interest rate based upon LIBOR plus 2% and a termination date of December 2010. At June 30, 2010, $14,000 was outstanding on this note. During 2008, a $1,800 line of credit was initiated with one bank and was paid in full with the funds from the $10,000 line of credit from another bank, which had variable interest rate based upon LIBOR plus 0.95% and a termination date of August 31, 2009; at June 30, 2010 and 2009, $0 and $1,811, respectively, was outstanding on this line. The $10,000 line of credit was paid in full in 2010.

(Dollars in thousands)

(11) Debt

(a) Long-Term Debt

Long-term debt consists of the following at June 30:

	2010	2009
Hospital Revenue Bonds, Series 2007A	$ 55,000	55,000
Hospital Revenue Refunding Bonds, Series 2006C	200,000	200,000
Hospital Revenue Refunding Bonds, Series 2006A and 2006B	93,405	95,205
Hospital Revenue Refunding Bonds, Series 2005	61,810	63,940
Hospital Revenue Bonds, Series 2003	36,666	40,145
Notes payable	6,429	4,399
Capital lease obligations	19,698	22,388
Other	358	71
	473,366	481,148
Unamortized premium	7,538	7,800
Unamortized discount	(1,113)	(1,143)
	479,791	487,805
Less current maturities	(11,958)	(13,197)
	$ 467,833	474,608

(b) Series 2007 Bonds

On July 24, 2007, The Virginia Small Business Financing Authority issued, on behalf of Wellmont, $55,000 of Hospital Revenue Bonds, Series 2007A. The Series 2007A Bonds, with other methods of financing, were used to purchase the assets of Mountain View Regional Medical Center and Lee Regional Medical Center.

Principal on outstanding Series 2007A Bonds is payable through maturity or mandatory sinking fund redemption in annual amounts ranging from $360 to $2,460 commencing on September 1, 2017 through September 1, 2036, with a balloon payment of $29,245 due on September 1, 2037. The outstanding bonds accrue interest at rates ranging from 5.125% to 5.25%.

(c) Series 2006C

On October 26, 2006, The Health, Educational and Housing Facilities Board of the County of Sullivan Tennessee issued, on behalf of Wellmont, $200,000 of Hospital Revenue Bonds, Series 2006C. The Series 2006C Bonds were used to: finance the costs of acquisition of land for expansion, construction, expansion, equipping, and renovation of HVMC, including the construction of a new patient tower (collectively known as Project Platinum); finance the costs of the construction, expansion, equipping, and renovation of the emergency department at BRMC (the Bristol Emergency Department Project); and finance the costs of construction, expansion, renovation, and equipping of an operating room and related facilities at HCMH.

Principal on outstanding Series 2006C Bonds is payable through maturity or mandatory sinking fund redemption in annual amounts ranging from $1,605 to $25,330 commencing on September 1, 2017 through September 1, 2036. The outstanding bonds accrue interest at rates ranging from 5.00% to 5.25%.

(d) Series 2006 A and B

On June 23, 2006, The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee issued, on behalf of Wellmont, $98,475 of Hospital Revenue Refunding Bonds, Series 2006. This bond issuance consists of Series A tax-exempt and Series B taxable bonds of $76,595 and $21,880, respectively. The Series 2006 Bonds together with other available funds were used to advance refund all the previously issued Hospital Revenue Bonds, Series 1993, to reimburse Wellmont for payments made on other taxable borrowings and to pay certain expenses incurred in connection with the issuance of the Series 2006 Bonds. Upon this refunding, a trust was established to pay all future bond payments related to the Series 1993 Bonds. Wellmont was deemed to have paid the Series 1993 Bonds and these Bonds are no longer deemed to be outstanding for purposes of the Series 1993 Trust Indenture.

Principal on outstanding Series 2006A Bonds is payable through maturity or mandatory sinking fund redemption in annual amounts ranging from $875 to $6,400 commencing on September 1, 2013 through September 1, 2032; and the outstanding bonds accrue interest on a variable rate, which is reset monthly based upon the AAA-insured Municipal Market Data Index, plus 85 basis points. Principal on outstanding Series 2006B Bonds is payable through maturity in annual amounts ranging from $1,600 to $2,930 commencing on September 1, 2007 through September 1, 2016, and the outstanding bonds accrue interest at a fixed rate of 6.95%.

Outstanding Series 2006A Bonds are subject to redemption prior to maturity at the option of The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee upon direction by Wellmont in whole at any time, or in part on any certain specified days at redemption prices of 100%–102% of the principal amount of the Series 2006A Bonds being redeemed, plus accrued interest thereon to the redemption date.

On October 1, 2010, the Series 2006B Bonds were called and paid in full at par value of $14,880.

(e) Series 2005

On December 8, 2005, The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee, issued, on behalf of Wellmont, $70,620 of Hospital Revenue Refunding Bonds, Series 2005. The Series 2005 Bonds together with other available funds were used to advance refund the previously issued Hospital Revenue Bonds, Series 2002, and to pay certain expenses incurred in connection with the issuance of the Series 2005 Bonds.

Principal on outstanding Series 2005 Bonds is payable through maturity or scheduled mandatory sinking fund redemption in annual amounts ranging from $1,945 to $3,390 commencing on September 1, 2007 through September 1, 2032. The terms of the bonds provide that bondholders may redeem or put the bonds to the remarketing agent on dates that approximate a weekly basis. The remarketing agent is obligated to remarket the redeemed bonds on a "best efforts" basis. Redeemed bonds are repaid to bondholders from the proceeds of the remarketing effort or, in the event of an inability to remarket the bonds, from a letter of credit. Subsequent to year-end, Wellmont amended its letter of credit to cover an amount equal to the principal and up to 40 days' interest on the bonds at a maximum interest rate of 12% per annum, and is effective through July 1, 2011. This letter secures the bonds in the event of a failed remarketing or liquidity issue. In the event of a liquidity drawing under the letter of credit, Wellmont shall pay the Base Rate for the first 90 days equal to the greater of (i) the Prime Rate plus 1.50% per annum, ii) the Federal Funds Rate plus 3.00% per annum, or iii) 7.50% per annum. ; the Base Rate plus 0.50% for days 91 through 366 and the Base Rate plus 1.00% thereafter until the amount is paid in full.

Outstanding Series 2005 Bonds are subject to redemption prior to maturity at the option of The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee upon direction by Wellmont in whole at any time, or in part on any certain specified days at redemption prices of 100%–102% of the principal amount of the Series 2005 Bonds being redeemed, plus accrued interest thereon to the redemption date.

(f) Series 2003

On June 1, 2003, The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee issued, on behalf of Wellmont, $59,100 of Hospital Revenue Bonds, Series 2003. The bonds were issued to provide funds necessary to refund Wellmont's Hospital Revenue Bonds, Series 1993 (HVHC), to fund a debt service reserve fund and to pay certain expenses incurred in connection with the issuance of the Series 2003 Bonds.

The Wellmont Series 2003 Bonds consist of $27,460 in fixed rate serial bonds and $19,280 in fixed rate term bonds payable through maturity or mandatory sinking fund redemption maturing in annual amounts ranging from $3,230 on September 1, 2007 to $4,140 on September 1, 2019, and carrying interest rates ranging from 2.5% to 5.00%.

(g) Master Trust Indenture

The master trust indenture and loan agreements for the 2007, 2006, 2005, and 2003 bonds contain certain requirements regarding deposits to trustee funds, maintenance of rates, maintenance of debt service coverage and liquidity, permitted indebtedness, and permitted disposition of assets. Gross receipts of Wellmont collateralize the bonds. The purpose of the master trust indenture is to provide a mechanism for the efficient and economical issuance of notes by individual members of Wellmont using the collective borrowing capacity and credit rating of Wellmont. The master trust indenture requires individual members of Wellmont to make principal and interest payments on notes issued for their benefit. The master trust indenture also requires Wellmont members to make payments on notes issued by other members of Wellmont if such other members are unable to satisfy their obligations under the master trust indenture. Payments of principal and interest on certain bonds are also insured by bond insurance policies.

Funds held by the trustee related to the various revenue bonds are available for specific purposes. The bond interest and revenue funds may be used only to pay interest and principal on the bonds; the debt service reserve fund may be used to pay interest and principal if sufficient funds are not available in the bond interest and revenue funds. The original issue discount and premium on all Bond Series outstanding are being amortized over the life of the bond issue using the effective-interest method.

(h) Notes Payable

During 2007, Wellmont entered into a five-year $3,000 note payable, which has a fixed interest rate of 7.25% and a termination date of July 2011; at June 30, 2010 and 2009, $2,062 and $2,319, respectively, was outstanding on this note.

During 2008, Wellmont entered into a five-year $2,400 term note payable, which has a fixed interest rate of 7.25% and a termination date of August 2012; at June 30, 2010 and 2009, $1,600 and $2,080, respectively, was outstanding on this note.

During 2010, Wellmont entered into a $2,767 note payable to finance the purchase of Cardiovascular Associates. The note payable has a fixed interest rate of 5.5% and a termination date of May 2013. At June 30, 2010, $2,767 was outstanding on this note.

(i) Capital Lease Obligations

Wellmont has entered into leases for certain equipment under agreements classified as capital leases that expire over periods through 2011. Assets under capital leases are included in property and equipment and have a net carrying value of $26,325 and $29,625 as of June 30, 2010 and 2009, respectively. Amortization of capital assets is included in depreciation expense. The lease obligations are recorded at the net present value of the minimum lease payments with interest rates from 4.3% to 6.0%.

(Dollars in thousands)

(j) Long-term Debt Maturities Schedule

Bond maturities in accordance with the original terms of the Master Trust Indenture and other long-term debt maturities for each of the next five years and in the aggregate at June 30, 2010 are as follows:

2011	$	11,958
2012		13,329
2013		12,935
2014		12,193
2015		12,415
Thereafter		410,536
	$	473,366

The following table reflects the required repayment terms for the years ended June 30 of Wellmont's debt obligations in the event that the put options associated with the 2005 bonds were exercised, but not successfully remarketed.

2011	$	11,958
2012		30,859
2013		30,365
2014		29,508
2015		9,755
Thereafter		360,921
	$	473,366

Interest paid for the years ended June 30, 2010 and 2009 was $20,792 and $21,564, respectively, net of amounts capitalized. Interest costs of $2,776 and $3,421, net of interest income of $683 and $3,293 in 2010 and 2009, respectively, were capitalized.

(12) Derivative Transactions

Interest Rate Swaps: Wellmont is a party to a number of interest rate swap agreements. Such swaps have not been designated as hedges and are valued at estimated fair value in the accompanying consolidated balance sheets. By using derivative financial instruments to hedge exposures to changes in interest rates, Wellmont exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes Wellmont, which creates credit risk for Wellmont. When the fair value of a derivative contract is negative, Wellmont owes the counterparty, and therefore, Wellmont is not exposed to the counterparty's credit risk in those circumstances. Pursuant to the terms of its interest rate swap agreements, Wellmont is required to postcollateral with its counterparties under certain specified conditions. Collateral posting requirements are based on the amount of Wellmont's derivative liability and

(Dollars in thousands)

Wellmont's bond rating. As of June 30, 2010 and 2009, Wellmont was not required to postcollateral related to its swaps.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

In September and October 2008, the counterparty and credit support provider to the swaps filed bankruptcy. Subsequent to the bankruptcy filings, no payments have been made by Wellmont or the counterparty to each other. As of June 30, 2010, the net amounts due to Wellmont for this period are less than $100 and have been fully reserved. The bankruptcy process is underway and the outcome cannot be determined at this time.

Management's primary objective in holding such derivatives is to introduce a fixed or variable rate component into its debt structure using LIBOR. The fair value as of June 30, 2010 and 2009 of approximately $(12,943) and $(10,250), respectively, is included in other liabilities in the consolidated balance sheets. The change in the fair value of the derivative instruments was approximately $(2,693) and $(5,747), respectively, in 2010 and 2009 and is included in nonoperating losses, net in the consolidated statements of operations. The terms of the swap agreements allow netting of all amounts due from/to the counterparty. The net amounts have been recorded pending the outcome of any bankruptcy proceedings. The following is a summary of the interest rate swap information as of June 30, 2010:

Type of interest swap	Debt hedging	Notional amount	Effective date	Maturity date	Rate paid	Rate received	Swap fair value asset (liability)
Total return swap	Series 2006A	$ 76,595	June 29, 2006	September 1, 2011	1.103%	5.440%	$ 1,101
Pay fixed interest rate swap	Series 2005	65,975	December 13, 2005	September 1, 2016	3.548	0.217	(6,810)
Basis swap	Series 2002	67,965	September 1, 2002	September 1, 2032	0.253	0.198	(2,710)
Pay fixed interest rate swap	Series 2006A	35,342	October 24, 2003	September 1, 2021	3.613	0.162	(4,524)
							$ (12,943)

The following is a summary of the interest rate swap information as of June 30, 2009:

Type of interest swap	Debt hedging	Notional amount	Effective date	Maturity date	Rate paid	Rate received	Swap fair value asset (liability)
Total return swap	Series 2006A	$ 76,595	June 29, 2006	September 1, 2011	2.744%	5.884%	$ 1,075
Pay fixed interest rate swap	Series 2005	65,975	December 13, 2005	September 1, 2016	3.548	0.309	(5,197)
Basis swap	Series 2002	67,965	September 1, 2002	September 1, 2032	1.894	1.728	(2,708)
Pay fixed interest rate swap	Series 2006A	35,342	October 24, 2003	September 1, 2021	3.613	1.184	(3,420)
							$ (10,250)

(13) Pension and Other Postretirement Benefits

Wellmont sponsors a retirement program and defined contribution retirement plan (Retirement Plan) that covers substantially all employees. This program and the related Retirement Plan were created from amendments, restatements, and mergers of existing defined contribution plans at BRMC and HVMC. Wellmont makes annual contributions to the Retirement Plan in an amount equal to 3% of each participant's base wages and contributes an additional amount, based on each participant's voluntary contributions, which cannot exceed certain limits established in the Internal Revenue Code, up to 3% of each participant's wages. The total pension expense related to the Retirement Plan was $9,990 and $9,937 for the years ended June 30, 2010 and 2009, respectively.

HVMC sponsored a noncontributory, defined benefit pension plan covering substantially all its employees. However, effective June 30, 1996, this plan was frozen and no further benefits accrue. LPH also sponsors a defined benefit pension plan covering substantially all its employees.

HVMC's defined pension benefits are actuarially determined based on a formula taking into consideration an employee's compensation and years of service. HVMC's funding policy is to make annual contributions to the plan based upon the funding standard developed by the plan actuary. This standard uses the projected unit credit actuarial cost method, including the amortization of prior service costs, over a 20-year period. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The LPH plan contains similar funding and actuarial policies.

On June 30, 2007, the HVMC plan merged into LPH plan and the plan name changed to Wellmont Health System Defined Benefit Plan. At the end of 2008, only a single defined pension plan exists. Collectively, the two defined benefit plans are referred to as the "Plans."

Wellmont recognizes the funded status (i.e., difference between the fair value of plan assets and projected benefit obligations) of its defined benefit pension plans as an asset or liability in its consolidated balance sheets and recognizes changes in that funded status in the year in which the changes occur as a change in unrestricted net assets. All defined benefit pension plans use a June 30 measurement date.

(Dollars in thousands)

The following table sets forth the funded status of the combined Plans, amounts recognized in the accompanying consolidated financial statements, and assumptions at June 30:

		2010	2009
Change in benefit obligation:			
Benefit obligation at beginning of year	$	40,035	37,212
Service cost		230	234
Interest cost		2,432	2,441
Actuarial losses		4,008	2,132
Benefits paid		(2,140)	(1,984)
Benefit obligation at end of year	$	44,565	40,035
Change in plan assets:			
Fair value of plan assets at beginning of year		33,326	43,420
Actual return on plan assets		3,361	(8,110)
Benefits paid		(2,140)	(1,984)
Fair value of plan assets at end of year		34,547	33,326
Funded status	$	(10,018)	(6,709)
Amounts recognized in the accompanying consolidated balance sheets:			
Pension liability – other long-term liability	$	(10,018)	(6,709)

(Continued)

(Dollars in thousands)

		2010	2009
Amounts not yet reflected in net periodic benefit cost and included as an accumulated charge to unrestricted net assets:			
Unrecognized actuarial loss	$	13,158	10,851
Unrecognized prior service cost		2	2
Net amounts included as an accumulated charge to unrestricted net assets	$	13,160	10,853
Calculation of change in unrestricted net assets:			
Accumulated charge to unrestricted net assets, end of year	$	13,160	10,853
Reversal of accumulated credit to unrestricted net assets, prior year		(10,853)	2,357
Change in unrestricted net assets	$	2,307	13,210
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:			
Actuarial loss arising during the year	$	2,907	13,210
Amortization of actuarial gain or loss		(600)	—
Amortization of prior service cost		—	—
Net amounts recognized as a charge to unrestricted net assets	$	2,307	13,210

(Dollars in thousands)

		2010	2009
Estimate of amounts that will be amortized from unrestricted net assets to net pension cost in 2011:			
Amortization of net loss	$	791	—
Amortization of prior service cost		—	2
Estimated future benefit payments:			
Fiscal 2011		2,211	2,150
Fiscal 2012		2,220	2,189
Fiscal 2013		2,337	2,314
Fiscal 2014		2,472	2,456
Fiscal 2015 (FY09 fiscal 2015 – 2019)		2,578	13,769
Fiscal 2016 – 2020		14,278	
Weighted average assumptions used to determine benefit obligations:			
Settlement (discount) rate		5.50%	6.25%
Weighted average rate of increase in future compensation levels		3.00	3.00
Components of net periodic benefit cost (benefit):			
Service cost	$	230	234
Interest cost		2,432	2,441
Expected return on plan assets		(2,259)	(2,968)
Amortization of unrecognized net loss		600	—
Amortization of unrecognized prior service cost		—	0
Net periodic benefit cost (benefit)	$	1,003	(293)
Weighted average assumptions used to determine net periodic benefit cost:			
Settlement (discount) rate		6.25%	6.75%
Expected long-term return on plan assets (HVMC)		7.00	7.00
Expected long-term return on plan assets (LPH)		7.00	7.00
Weighted average rate of increase in future compensation levels		3.00	3.00

Wellmont's overall expected long-term rate of return on assets is 7.00%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Wellmont does not expect to make any contributions to the Plans during 2011.

Wellmont has developed a plan investment policy, which is reviewed and approved by the board of directors. The policy established goals and objectives of the fund, asset allocations, asset classifications, and manager guidelines. The policy dictates a target asset allocation and an allowable range for such categories based on quarterly investment fluctuations. Investments are managed by independent advisers who are monitored by management and the board of directors.

(Dollars in thousands)

The table below shows the target allocation and actual asset allocations as of June 30, 2010 and 2009:

	Target	June 30,	
Asset	**allocation**	**2010**	**2009**
Equity securities	65%	56%	53%
Fixed income	28	27	29
Cash	5% – 15%	1	3
Other	5 – 15	16	15

Wellmont monitors the asset allocation and executes required recalibrations of the portfolio allocation on a regular basis in response to fluctuations in market conditions and the overall portfolio composition.

HVMC also participates in a health and welfare plan for its retirees. The plan provides postretirement medical and life insurance benefits to certain employees who meet minimum age and service requirements. Effective January 1, 1995, the death benefit was changed to provide a flat $5 benefit to all future retirees. During 1995, the medical program for retirees was amended to terminate medical benefits for any active employees who would not meet the full eligibility requirements of the program by January 1, 1996. The plan is contributory and contains other cost-sharing features such as deductibles and coinsurance.

(Dollars in thousands)

The following table sets forth the postretirement plan's funded status, amounts recognized in the accompanying consolidated financial statements, and assumptions at June 30:

		2010	2009
Change in benefit obligation:			
Benefit obligation at beginning of year	$	5,653	5,637
Interest cost		320	355
Plan participants contributions		73	36
Actuarial losses		197	23
Benefits paid		(382)	(398)
Benefit obligation at end of year		5,861	5,653
Change in plan assets:			
Fair value of plan assets at beginning of year		—	—
Employer contribution		309	362
Plan participants contributions		73	36
Benefits paid		(382)	(398)
Fair value of plan assets at end of year		—	—
Funded status	$	(5,861)	(5,653)
Amounts recognized in the consolidated balance sheets consist of:			
Noncurrent liaibilities	$	(5,861)	(5,653)
Accumulated credit to unrestricted net assets		3,560	4,076
	$	(2,301)	(1,577)

Amounts recognized as an accumulated credit to unrestricted net assets consist of:

		Postretirement benefits	
		2010	2009
Net actuarial gain	$	3,560	4,076

(Dollars in thousands)

Net periodic benefic cost recognized and other changes in plan assets and benefit obligations recognized in unrestricted net assets in 2010 and 2009 were:

		Postretirement benefits	
		2010	**2009**
Net periodic benefit cost:			
Interest cost	$	320	355
Amortization of net gain		(319)	(335)
Net periodic benefit cost recognized		1	20
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:			
Net actuarial loss		197	23
Amortization of net gain		319	335
Total recognized as a charge to unrestricted net assets		516	358
Total recognized in net periodic benefit cost and unrestricted net assets	$	517	378

The net gain and prior service credit for the defined benefit postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $(261) and $0, respectively. Weighted average assumptions used to determine benefit obligations for 2010 and 2009 were as follows:

	Postretirement benefits	
	2010	**2009**
Discount rate	5.00%	6.00%
Rate of compensation increase	—	—
Healthcare cost trend rate	5.00	5.00

Weighted average assumptions used to determine net benefit cost for 2010 and 2009 were as follows:

	Postretirement benefits	
	2010	**2009**
Discount rate	6.00%	6.75%
Expected long-term rate of return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Healthcare cost trend rate	5.00%	5.00%

Wellmont's overall expected long-term rate of return on assets is 7%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

(Dollars in thousands)

For measurement purposes, a 5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2010.

The following table summarizes the effect of one-percentage-point increase/decrease in healthcare costs trends:

	2010	2009
Effect of one-percentage-point increase in healthcare cost trend on:		
Service and interest cost	$ 20	22
Accumulated pension benefit obligation	330	326
Effect of one-percentage-point decrease in healthcare cost trend on:		
Service and interest cost	(18)	(20)
Accumulated pension benefit obligation	(294)	(291)

The asset allocations of Wellmont's pension and postretirement benefits as of June 30, 2010 and 2009, respectively, were as follows:

	Fair value measurement at June 30, 2010 pension benefits – plan assets			
Asset category	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Stock mutual funds	$ 28,803	19,412	9,391	—
Cash and money market funds	244	244	—	—
Alternative investments	5,500	—	—	5,500
Total	$ 34,547	19,656	9,391	5,500

(Dollars in thousands)

	Fair value measurement at June 30, 2009 pension benefits – plan assets			
Asset category	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Stock mutual funds	$ 27,444	17,710	9,734	—
Cash and money market funds	749	749	—	—
Alternative investments	5,133	—	—	5,133
Total	$ 33,326	18,459	9,734	5,133

The following tables presents Wellmont's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820 for the years ended June 30, 2010 and 2009:

	Alternative investments
Balance at June 30, 2008	$ 7,960
Net change in value	(4,464)
Purchases, issuances, and settlements	1,637
Tranfers in and/or out of Level 3 (net)	—
Balance at June 30, 2009	5,133
Net change in value	254
Purchases, issuances, and settlements	113
Tranfers in and/or out of Level 3 (net)	—
Balance at June 30, 2010	$ 5,500

(14) Self-Insurance Programs

Wellmont is self-insured for professional and general liability and workers' compensation liability. Consulting actuaries have been retained to determine funding requirements and estimate claim liability exposures. Wellmont has established revocable self-insurance trust funds to provide for professional and general liability claims and workers' compensation claims and related expenses. Wellmont's contributions to the self-insurance trusts are based upon actuarial determinations by an independent service company. The professional and general liability self-insurance program is supplemented by umbrella excess liability policies consisting of various layers of coverage with commercial carriers based on policy year. The workers' compensation program is supplemented for Tennessee and Virginia by excess workers' compensation policies, with a commercial carrier for statutory limits per occurrence. Wellmont does not qualify as a self-insurer in Kentucky and hence purchases a separate policy for its operation in Kentucky. Provisions based on actuarial estimates are made for the ultimate cost of claims asserted, as well as estimates of claims incurred but not reported as of the respective consolidated balance sheet dates. Insurance expense under these programs amounted to approximately \$3,414 and \$5,658 for the years ended June 30, 2010 and 2009, respectively, and are included in other expense in the accompanying consolidated statements of operations and changes in net assets.

(Dollars in thousands)

At June 30, 2010 and 2009, Wellmont was involved in litigation relating to medical malpractice and workers' compensation claims arising in the ordinary course of business. There are also known incidents that occurred through June 30, 2010 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Claims have been filed requesting damages in excess of the amount accrued for estimated malpractice costs. Management of Wellmont is of the opinion that estimated professional and general liability amounts accrued at June 30, 2010 are adequate to provide for potential losses resulting from pending or potential litigation. Amounts of claim settlements may be more or less than what has been provided for by management. The ultimate settlement of claims could be different from recorded accruals, with such differences being potentially significant.

Wellmont is also self-insured for medical and other healthcare benefits provided to its employees and their families. A provision for estimated incurred but not reported claims has been provided in the consolidated financial statements.

(15) Commitments and Contingencies

Construction in progress at June 30, 2010 and 2009 relates primarily to the completion of certain buildings and renovations. Total costs to complete these and other projects were approximately \$11,920 at June 30, 2010. Wellmont has entered into contracts of approximately \$11,920 related to these projects.

Wellmont leases certain equipment and office space under operating lease agreements. Total rental expense under cancelable and noncancelable agreements was \$16,857 and 16,441 for the years ended June 30, 2010 and 2009, respectively. Minimum future lease payments under noncancelable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2010 are as follows:

2011	$	14,227
2012		12,318
2013		8,149
2014		3,763
2015		3,383
Thereafter		20,699
	$	62,539

The HCHM lease to WHCMH is for 20 years and can be automatically extended for two additional terms of 10 years each. Should WHCMH generate annual net excess revenue over expenses, 50% shall be transferred to a designated fund in the Foundation for the purpose of healthcare projects. No transfers were required for the years ended June 30, 2010 and 2009.

(Dollars in thousands)

Wellmont has entered into contractual employment relationships with physicians to provide services to Wellmont physician practices that are intended to qualify under the employee safe harbor of the Anti-Kickback Statute and the employee exception of the Physician Self-Referral Law. These contracts have terms of varying lengths, guarantee certain base payments, and may provide for additional incentives based upon productivity.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, such matters as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare fraud and abuse. 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. Management believes Wellmont is in compliance with fraud and abuse statutes and other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

(16) Functional Expense Disclosure

Wellmont provides healthcare services to residents within its geographic location. Expenses based upon functional classification related to providing these services during the years ended June 30 are as follows:

		2010	2009
Professional care of patients	$	605,360	617,198
Administrative and general		117,123	101,641
Fund-raising		1,235	1,260
	$	723,718	720,099

(17) Income Taxes

Wellmont, Inc. and its subsidiaries file consolidated federal and separate company state income tax returns. These companies have combined net operating loss carryforwards for federal income tax purposes of approximately $52,000 at June 30, 2010, which begin expiring in fiscal 2016 and expire through 2030. These net operating losses can be used to offset future consolidated taxable income of Wellmont, Inc. and subsidiaries. Wellmont participates in certain activities that generate unrelated business taxable income. These activities have generated net operating losses in prior years, and Wellmont files a Form 990-T with the Internal Revenue Service to report such activity. Wellmont has net operating loss carryforwards for federal income tax purposes of approximately $975 for unrelated business activities. Management believes that it is not more likely than not that deferred tax assets arising from net operating loss carryforwards will be realizable. Accordingly, these are fully reserved at June 30, 2010 and 2009.

(Dollars in thousands)

(18) Concentration of Credit Risk

Wellmont grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2010 and 2009 was as follows:

	2010	2009
Medicare	46%	45%
TennCare	4	4
Medicaid	8	8
Other third-party payors	31	31
Patients	11	12
	100%	100%

(19) Disclosures about Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair value of each class of instruments:

Cash and Cash Equivalents

The carrying amount approximates fair value due to the short maturities of these instruments.

Patient Accounts and Other Receivables

The net recorded carrying value approximates fair value due to the short maturities of these instruments.

Investments and Assets Limited as to Use

The fair values of investments and assets limited as to use are based on quoted market prices and quotes obtained from security brokers or, in the case of the limited partnerships, by the general partner.

Accounts Payable and Accrued Expenses

The carrying amount approximates fair value due to the short maturities of these liabilities.

Estimated Third-Party Payor Settlements, Other Long-Term Liabilities

The carrying amount approximates fair market value due to the nature of these liabilities.

Long-Term Debt

The fair value of revenue bonds, using current market rates, was estimated at $422,290 and $344,863 for the years ended June 30, 2010 and 2009, respectively.

(Continued)

(b) Fair Value Hierarchy

On July 1, 2008, Wellmont adopted new guidance issued by FASB for fair value measurement of financial assets and financial liabilities and for fair value measurement of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis now codified into ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that Wellmont has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices including within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

In conjunction with the adoption of the new guidance, Wellmont elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12 to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends the previous guidance and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances may not equal fair value that would be calculated pursuant to ASC 820. The fair value of these investments was $56,972 and $37,312 at June 30, 2010 and 2009, respectively.

(Dollars in thousands)

The following table presents assets and liabilities that are measured at fair value on recurring basis at June 30, 2010:

		Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$	35,711	—	—	35,711
Assets limited as to use:					
Stock mutual funds		109,629	—	—	109,629
Bond mutual funds		71,698	—	—	71,698
Cash and money market funds		50,555	—	—	50,555
Real estate funds		7,468	—	—	7,468
Alternative investments			18,043	39,362	57,405
Corporate bonds		6,867	—	—	6,867
		246,217	18,043	39,362	303,622
Long-term investments:					
Stock mutual funds		9,279	—	—	9,279
Bond mutual funds		7,599	—	—	7,599
Cash and money market funds		287	—	—	287
Real estate funds		1,722	—	—	1,722
Alternative investments		—	1,992	—	1,992
		18,887	1,992	—	20,879
Total assets	$	300,815	20,035	39,362	360,212
Liabilities:					
Interest rate derivatives liability	$	—	12,943	—	12,943
Total liability	$	—	12,943	—	12,943

(Dollars in thousands)

The following table presents assets and liabilities that are measured at fair value on recurring basis at June 30, 2009:

		Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$	60,889	—	—	60,889
Assets limited as to use:					
Stock mutual funds		108,036	—	—	108,036
Bond mutual funds		5,910	—	—	5,910
Cash and money market funds		85,386	—	—	85,386
Real estate funds		5,419	—	—	5,419
Alternative investments			2,295	33,291	35,586
Corporate bonds		7,464	—	—	7,464
		212,215	2,295	33,291	247,801
Long-term investments:					
Stock mutual funds		8,631	—	—	8,631
Bond mutual funds		3,648	—	—	3,648
Cash and money market funds		5,202	—	—	5,202
Real estate funds		1,255	—	—	1,255
Alternative investments		—	1,726	—	1,726
		18,736	1,726	—	20,462
Total assets	$	291,840	4,021	33,291	329,152
Liabilities:					
Interest rate derivatives liability	$	—	10,250	—	10,250
Total liability	$	—	10,250	—	10,250

(Dollars in thousands)

The following table presents Wellmont's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820 for the years ended June 30, 2010 and 2009:

		Alternative investments
Balance at June 30, 2008:	$	51,661
Total realized and unrealized gains (losses):		
Included in revenues and gains in excess of expenses and losses		—
Included in changes in net assets		(3,574)
Purchases, issuances, and settlements		(14,796)
Transfers in and/or out of Level 3 (net)		—
Balance at June 30, 2009:	$	33,291
Total realized and unrealized gains (losses):		
Included in revenues and gains in excess of expenses and losses		—
Included in changes in net assets		469
Purchases, issuances, and settlements		5,602
Transfers in and/or out of Level 3 (net)		—
Balance at June 30, 2010	$	39,362

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

WELLMONT HEALTH SYSTEM AND AFFILIATES

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KPMG LLP
Suite 1000
401 Commerce Street
Nashville, TN 37219-2422

Independent Auditors' Report

The Board of Directors
Wellmont Health System:

We have audited the accompanying consolidated balance sheets of Wellmont Health System and affiliates (Wellmont) as of June 30, 2011 and 2010, 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 Wellmont'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 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 Wellmont's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

KPMG LLP

October 27, 2011

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Balance Sheets

June 30, 2011 and 2010

(Dollars in thousands)

Assets		**2011**	**2010**
Current assets:			
Cash and cash equivalents	$	36,558	35,711
Assets limited as to use, required for current liabilities		1,902	1,815
Patient accounts receivable, less allowance for uncollectible accounts of approximately $24,246 and $25,113 in 2011 and 2010, respectively		101,565	94,057
Other receivables		9,904	10,919
Inventories		17,830	18,294
Prepaid expenses and other current assets		7,163	7,003
Total current assets		174,922	167,799
Assets limited as to use, net of current portion		319,387	301,807
Land, buildings, and equipment, net		454,937	450,205
Other assets:			
Long-term investments		36,437	32,391
Investments in affiliates		31,177	32,019
Deferred debt expense, net		5,847	4,644
Goodwill		16,721	9,501
Other		1,875	730
		92,057	79,285
Total assets	$	1,041,303	999,096
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	9,273	11,958
Short-term note payable		—	14,000
Accounts payable and accrued expenses		70,943	74,679
Estimated third-party payor settlements		9,533	11,672
Current portion of other long-term liabilities		8,527	7,251
Total current liabilities		98,276	119,560
Long-term debt, less current portion		459,260	467,833
Other long-term liabilities, less current portion		42,006	44,976
Total liabilities		599,542	632,369
Net assets:			
Unrestricted		434,661	358,620
Temporarily restricted		3,570	4,551
Permanently restricted		1,174	1,168
Total net assets attributable to Wellmont		439,405	364,339
Noncontrolling interests		2,356	2,388
Total net assets		441,761	366,727
Commitments and contingencies			
Total liabilities and net assets	$	1,041,303	999,096

See accompanying notes to consolidated financial statements.

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2011 and 2010

(Dollars in thousands)

		2011	2010
Revenue:			
Net patient service revenue	$	767,450	692,920
Other revenues		29,799	31,472
Total revenue		797,249	724,392
Expenses:			
Salaries and benefits		347,185	310,667
Medical supplies and drugs		160,565	150,143
Purchased services		80,348	74,922
Interest		20,750	20,110
Provision for bad debts		37,858	35,293
Depreciation and amortization		46,059	43,711
Other		87,319	66,734
Total expenses		780,084	701,580
Income from operations		17,165	22,812
Nonoperating gains (losses):			
Investment income		10,383	1,012
Derivative valuation adjustments		1,355	(2,693)
Other, net		(519)	(805)
Gain on refinancing		1,042	—
Nonoperating gains (losses), net		12,261	(2,486)
Revenue and gains in excess of expenses and losses before discontinued operations		29,426	20,326
Discontinued operations		44	(1,109)
Revenue and gains in excess of expenses and losses		29,470	19,217
Income attributable to noncontrolling interests		(1,238)	(1,062)
Revenues and gains in excess of expenses and losses attributable to Wellmont		28,232	18,155
Other changes in unrestricted net assets:			
Change in net unrealized gains on investments		42,186	22,312
Net assets released from restrictions for additions to land, buildings, and equipment		2,852	1,555
Change in the funded status of benefit plans and other		2,771	(3,428)
Increase in unrestricted net assets		76,041	38,594
Changes in temporarily restricted net assets:			
Contributions		2,566	2,934
Net assets released from temporary restrictions		(3,547)	(1,972)
(Decrease) increase in temporarily restricted net assets		(981)	962
Changes in permanently restricted net assets – investment income (loss)		6	(77)
Changes in noncontrolling interests:			
Adjustment due to adoption of authoritative guidance		—	2,054
Income attributable to noncontrolling interests		1,238	1,062
Distributions to noncontrolling interests		(1,178)	(711)
Change in noncontrolling percentages		(92)	(21)
(Decrease) increase in noncontrolling interests		(32)	2,384
Change in net assets		75,034	41,863
Net assets, beginning of year		366,727	324,864
Net assets, end of year	$	441,761	366,727

See accompanying notes to consolidated financial statements.

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

(Dollars in thousands)

		2011	2010
Cash flows from operating activities:			
Change in net assets	$	75,034	41,863
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		46,070	43,755
(Gain) loss on disposal of land, buildings, and equipment		(864)	1,282
Equity in earnings of affiliated organizations		(4,478)	(6,773)
Distributions from affiliated organizations		5,320	6,730
Amortization of deferred financing costs		158	180
Net realized and unrealized gains on investments		(43,162)	(17,994)
Provision for bad debts		37,893	35,950
Change in fair value of derivative instruments		(1,355)	2,693
Gain on refinancing		(1,042)	—
Changes in assets and liabilities:			
Patient accounts receivable		(45,402)	(31,936)
Other current assets		303	(2,088)
Other assets		(538)	322
Accounts payable and accrued expenses		(6,729)	2,722
Estimated third-party payor settlements		(2,139)	(769)
Other current liabilities		1,276	899
Other liabilities		(63)	5,545
Net cash provided by operating activities		60,282	82,381
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		186,085	88,887
Purchase of investments		(164,635)	(127,131)
Purchase of land, buildings, and equipment		(42,352)	(55,684)
Proceeds from the sale of buildings and equipment		244	4,357
Cash paid for acquisitions		(7,826)	(2,421)
Distributions to affiliated organizations		—	(1,684)
Net cash used in investing activities		(28,484)	(93,676)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		91,133	14,000
Payments on long-term debt		(106,069)	(12,083)
Payment of debt issuance costs		(2,015)	—
Payments on line of credit		(14,000)	(15,800)
Net cash used in financing activities		(30,951)	(13,883)
Net increase (decrease) in cash and cash equivalents		847	(25,178)
Cash and cash equivalents, beginning of year		35,711	60,889
Cash and cash equivalents, end of year	$	36,558	35,711

Supplemental disclosures of noncash items:

Wellmont entered into capital lease obligations for buildings and equipment in the amount of $5,785 and $1,290 in 2011 and 2010, respectively.

Additions to property and equipment financed through current liabilities of $2,933 and $5,182 in 2011 and 2010, respectively.

See accompanying notes to consolidated financial statements.

(1) Operations and Basis of Presentation

Wellmont Health System (Wellmont) was formed to assume operations of Bristol Regional Medical Center (BRMC) and Holston Valley Health Care, Inc. (HVHC), including Holston Valley Medical Center, Inc. (HVMC), and to act as sole corporate member of its consolidated foundations. Effective July 1, 1996, under terms of an agreement and plan of consolidation and merger, BRMC and HVHC, including HVMC, were merged and consolidated into Wellmont. Effective January 1, 1997, Lonesome Pine Hospital (LPH), a Virginia corporation, was merged into Wellmont under terms of a plan of merger and merger agreement. Effective July 1, 2000, Hawkins County Memorial Hospital (HCMH) transferred its operations and operating assets to Wellmont Hawkins County Memorial Hospital (WHCMH), a tax-exempt organization that is wholly owned and controlled by Wellmont. Hancock County Hospital (HCH), a critical access hospital, was opened in March 2005 to help provide for the immediate healthcare needs of the residents of Sneedville and the surrounding counties. As of July 16, 2007, Wellmont acquired Jenkins Community Hospital in Kentucky. As of August 1, 2007, Wellmont acquired two hospitals in Virginia, Lee Regional Medical Center in Pennington Gap and Mountain View Regional Medical Center in Norton. On May 30, 2008, Wellmont acquired the Holston Valley Cath Lab, an outpatient lab. On May 1, 2010, Wellmont acquired Cardiovascular Associates. On January 1, 2011 Wellmont acquired Pulmonary Associates of Kingsport.

As of April 30, 2009, Wellmont closed Jenkins. The consolidated financial statements for the years ended June 30, 2011 and 2010 present Jenkins as a discontinued operation. Losses of $120 and $474 for the years ended June 30, 2011 and June 30, 2010, respectively, are included in discontinued operations.

As of September 23, 2010 Wellmont sold the majority of Medical Mall Pharmacy's assets to a national pharmacy company for $1,300 plus inventory value and recorded a gain of approximately $517 at June 30, 2011. The consolidated financial statements for the years ended June 30, 2011 and 2010 present Medical Mall Pharmacy as a discontinued operation. Losses of $353 and $635 for the years ended June 30, 2011 and June 30, 2010, respectively, are included in discontinued operations.

All acute care operations remain separately licensed and are treated as operating divisions within Wellmont. Wellmont's continuing operations consist primarily of the delivery of healthcare services in northeast Tennessee, and southwest Virginia.

The consolidated financial statements include the acute care operations of the above entities along with:

- Wellmont Foundation (the Foundation), which was created from the merger of Bristol Regional Medical Center Foundation and Holston Valley Health Care Foundation, Inc. The Foundation conducts fund-raising activities for the benefit of Wellmont.
- Wellmont, Inc., a wholly owned taxable subsidiary of Wellmont, formed as the holding company of various other taxable subsidiaries that provide medical collection and medical laundry services, operate physician practices, provide other healthcare-related services, and invest in affiliates and other activities.

- The Alzheimer's Center of East Tennessee was merged into Wellmont and changed its name to Wellmont Madison House effective September 1, 1997. Wellmont is the sole corporate member and the consolidated financial statements include the operations of this entity.

All significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

(2) Significant Accounting Policies

A summary of significant accounting policies follows:

(a) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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. Significant estimates include: allowances for contractual adjustments and bad debts; third-party payor settlements; valuation of investments, land, buildings, equipment and goodwill; and self-insurance and other liabilities. Actual results could differ from these estimates.

(b) Cash and Cash Equivalents

Wellmont considers all highly liquid investments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board of director's designation or other arrangements under trust agreements, to be cash equivalents.

(c) Investments

Marketable equity securities and debt securities are recorded at fair value and classified as other than trading. Fair value is determined primarily using quoted prices (unadjusted) in active markets for identical assets or liabilities that Wellmont has the ability to access at the measurement date. However, Wellmont also uses observable and unobservable inputs for investments without quoted market prices to determine the fair value of certain investments at the measurement date. Investments in limited partnerships are recorded at fair value as determined by the partnership using net asset value. Wellmont has adopted the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. Investments in affiliates in which Wellmont has significant influence but does not control are reported on the equity method of accounting, which represents Wellmont's equity in the underlying net book value. Long-term investments include those investments that have not been designated by the board of directors for specific purposes and are also not intended to be used for the liquidation of current liabilities. Investment income is recognized when earned.

Realized gains and losses are determined on the specific-identification method and included in investment income with interest and dividends. Investment income is reported net of related investment fees. Unrealized gains and losses are included in other changes in unrestricted net assets except for losses determined to be other than temporary, which are considered realized losses and included in investment income.

(d) Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under bond indenture and self-insurance agreements, as well as designated assets set aside by the board of directors for future capital improvements, over which the board of directors retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of Wellmont have been reclassified to current assets in the accompanying consolidated balance sheets.

(e) Inventories

Inventories are stated at the lower of cost or market value and are valued principally by the first-in, first-out and average-cost methods.

(f) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased, or fair value at date of donation. Depreciation is computed using the straight-line method based on the estimated useful life of the asset, ranging from 3 to 40 years. Buildings and equipment held under capital leases are recorded at net present value of future lease payments and are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Costs of maintenance and repairs are expensed as incurred. Upon sale or retirement of land, buildings, or equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss, if any, is included in other revenues on the consolidated statements of operations and changes in net assets. 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.

Wellmont evaluates long-lived assets for impairment on annual basis. Long-lived assets are considered to be impaired whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable from future cash flows. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. When such assets are considered to be impaired, the impairment loss recognized is measured by the amount by which the carrying value of the asset exceeds the fair value of the asset.

(Dollars in thousands)

(g) Goodwill

Effective July 1, 2010, Wellmont adopted ASU 2010-07 which in part requires healthcare entities to follow ASC Topic 350-20-35, *Intangibles – Goodwill and Other*. ASC Topic 350-20-35 requires goodwill of not-for-profit entities to be evaluated for impairment at least annually. The goodwill impairment test is a two-step test. Under the first step, the fair value of each reporting unit is compared with its carrying value (including goodwill). If the fair value of a reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. Wellmont has determined that the appropriate reporting unit for goodwill is the consolidated Wellmont entity and the annual impairment test is performed as of June 30. A summary of goodwill and related amortization for the year ended June 30 follows:

	2010	Additions	Decreases	2011
Goodwill	$ 9,501	7,220	—	16,721

	2009	Additions	Decreases	2010
Goodwill	$ 12,604	—	—	12,604
Amortization	(3,095)	(8)	—	(3,103)
	$ 9,509	(8)	—	9,501

(h) Deferred Debt Expense

Deferred debt expense is amortized over the life of the related bond issues using the effective-interest method.

(i) Derivative Financial Instruments

As further described in note 12, Wellmont is a party to interest rate swap and other derivative agreements. These financial instruments are not designated as hedges and are presented at estimated fair market value in the accompanying consolidated balance sheets. These fair values are based on the estimated amount Wellmont would receive, or be required to pay, to enter into equivalent agreements with a third party at the valuation date. Due to the nature of these financial instruments, such estimates are subject to significant change in the near term. Wellmont recognizes changes in the fair values of derivatives as nonoperating gains or losses in the consolidated statements of operations and changes in net assets. The cash settlements resulting from these interest rate swaps are reported as interest expense in the consolidated statements of operations and changes in net assets.

(j) Asset Retirement Obligations

Asset retirement obligations (AROs) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value, and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Wellmont records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Wellmont derecognizes ARO liabilities when the related obligations are settled.

(k) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Wellmont has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Wellmont in perpetuity. Generally, donors of permanently restricted assets permit use of all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets relate primarily to amounts held by the Foundation and include amounts restricted for future capital expenditures and for operations of such areas as children's healthcare services, hospice, and cancer research.

Net assets are released from restrictions by Wellmont incurring expenses that satisfy the restricted purposes. Such net assets released during 2011 and 2010 primarily included amounts related to the purchase of buildings and equipment for pediatrics, cancer, and other healthcare operations.

Wellmont has adopted guidance issued by FASB, which provides guidance on the net asset classification of donor-restricted endowment funds for a tax-exempt organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Effective July 1, 2007, the State of Tennessee adopted legislation that incorporates the provisions outlined in UPMIFA. Wellmont's endowments consist solely of donor-restricted endowment funds. Wellmont's endowments consist of four individual funds established for a variety of purposes.

Wellmont has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Wellmont classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are approved for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Wellmont considers the following factors in making a determination to appropriate or

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accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the organization and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the organization; and (7) the investment policies of the organization.

(l) Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts expected to be collected. Net patient service revenue includes amounts estimated by management to be reimbursable by patients and various third-party payors under provisions of reimbursement formulas in effect, including retroactive adjustments under reimbursement agreements. Estimated retroactive adjustments are accrued in the period related services are rendered and adjusted in future periods as final and other settlements are determined. Wellmont provides care to patients who meet criteria under its charity care policy without charge or at amounts less than its established rates. Because Wellmont does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenue.

Patient accounts receivable are reported net of both an allowance for contractual adjustments and an allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare, Medicaid, and other third-party payment programs. Wellmont's policy does not require collateral or other security for patient accounts receivable. Wellmont routinely obtains assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans, or policies.

(m) Revenue and Gains in Excess of Expenses and Losses

The consolidated statements of operations and changes in net assets include revenue and gains in excess of expenses and losses. Changes in unrestricted net assets that are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include changes in net unrealized gains (losses) on investments other than trading securities, changes in the funded status of Wellmont's defined benefit plan, contributions of long-lived assets, including assets acquired using contributions that, by donor restriction, were to be used for the purposes of acquiring such assets, and cumulative effects of changes in accounting principles.

For purposes of financial statement display, those activities directly associated with Wellmont's mission of providing healthcare services are considered to be operating activities. Nonoperating activities primarily include investment and related activities. Other operating revenues primarily include cafeteria, rental, and income from affiliates.

(n) Contributed Resources

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted contributions, and are excluded from revenue and gains in excess of expenses and loses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expiration of donor restrictions is reported when the donated or acquired long-lived assets are placed in service.

Unconditional promises to give cash or other assets are reported at fair value at the date the promise is received. Gifts are reported as either a temporarily or permanently restricted contribution if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions. Unrestricted contributions are included in other revenues.

(o) Federal Income Taxes

The Wellmont entities are primarily classified as organizations exempt from federal income taxes under Section 501(a) as entities described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included for these entities in the consolidated financial statements. The operations of Wellmont, Inc. are subject to state and federal income taxes, which are accounted for in accordance with ASC 740, *Income Taxes*; however, such amounts are not material.

On July 1, 2007, Wellmont adopted new guidance issued on the accounting for uncertainty in income tax positions now codified into ASC 740. It also provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. There was no impact on Wellmont's consolidated financial statements as a result of the adoption of the new guidance.

(p) New Accounting Pronouncements

Effective July 1, 2010, Wellmont adopted the new provisions of ASC 810-10-65-1 regarding noncontrolling interests in consolidated financial statements. This guidance requires Wellmont to clearly identify and present ownership interest in subsidiaries held by parties other than Wellmont in the consolidated financial statements within the net assets section. It also requires the amounts of consolidated revenues and gains in excess of expenses and losses attributable to Wellmont and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statements of operations. Upon adoption, Wellmont recorded a reclassification of $2,054 to reclass noncontrolling interest to net assets as of July 1, 2009.

In January 2010, the Financial Accounting Standards Board issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amends ASC Subtopic 820-10, Fair Value Measurements and Disclosures, to provide additional disclosure requirements for transfers into and out of Levels 1 and 2 and for activity in Level 3 and to clarify

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other existing disclosure requirements. WHS implemented ASU 2010-06 for the period ended June 30, 2011.

In January 2010, the Financial Accounting Standards Board issued ASU 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions* (ASU 2010-07). ASU 2010-07 provides guidance on a transaction or other event in which a not-for-profit entity that is a reporting entity combines with one or more other not-for-profit, businesses or nonprofit activities in a transaction that meets the definition of a merger of not-for-profit entities or an acquisition by a not-for-profit entity. In addition the ASU provides transitional guidance on existing goodwill at the time this ASU is adopted. WHS adopted ASU 2010-07 effective July 1, 2010.

In August 2010, the Financial Accounting Standards Board issued ASU 2010-23, *Measuring Charity Care for Disclosure* (ASU 2010-23). ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosures purposes and that cost can be identified as direct and indirect costs of providing charity care. The adoption of ASU 2010-23 will be effective for WHS beginning in fiscal year 2012.

In August 2010, the Financial Accounting Standards Board issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24). ASU 2010-24 clarifies that healthcare entities should not net insurance recoveries against the related claim liability and that the claim liability amount should be determined without consideration of insurance recoveries. The adoption of ASU 2010-24 will be effective for WHS beginning in fiscal year 2012.

In July 2011, the Financial Accounting Standards Board issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07). ASU 2011-07 will change WHS' presentation of provision for bad debts in the consolidated statements of operations and changes in net assets to a deduction from net patient service revenue. In addition there are enhanced disclosures about the entities policies for recognizing revenue and assessing bad debts. The ASU also requires disclosures of patient service revenue as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The adoption of ASU 2011-07 will be effective for WHS beginning in fiscal year 2013 with early adoption permitted.

(q) Reclassifications

Certain 2010 amounts have been reclassified to conform to the 2011 consolidated financial statement presentation. The reclassifications had no impact on total assets or changes in net assets.

(Dollars in thousands)

(3) 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 consolidated statements of operations and changes in net assets is as follows for the years ended June 30:

		2011	2010
Gross patient service charges	$	2,260,489	2,158,847
Less:			
Contractual adjustments and other discounts		(1,431,215)	(1,411,435)
Charity care		(61,824)	(54,492)
		(1,493,039)	(1,465,927)
Net patient service revenue	$	767,450	692,920

(4) Third-Party Reimbursement Arrangements

Wellmont renders services to patients under contractual arrangements with the Medicare and Medicaid programs. The Medicaid program in Tennessee was replaced with a managed care program known as TennCare, which was designed to cover previous Medicaid eligible enrollees. Amounts earned under these contractual arrangements are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. Management believes that adequate provision has been made for any adjustments that may result from such reviews. Participation in these programs subjects Wellmont to significant rules and regulations; failure to adhere to such could result in fines, penalties, or expulsion from the programs.

Wellmont contracts with various managed care organizations under the TennCare program. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates, including diagnostic-related group assignments, fee schedules and per diem amounts. Reimbursement under the Virginia Medicaid program is also based upon prospectively determined amounts.

The Medicare program pays for the costs of inpatient services on a prospective basis. Payments are based upon diagnostic-related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. Wellmont receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid-eligible and other low-income patients. Outpatient services are also reimbursed primarily on a prospectively determined basis.

(Dollars in thousands)

Net patient service revenue in 2011 and 2010 related to Medicare, TennCare and Virginia Medicaid and net patient accounts receivable at June 30, 2011 and 2010 from Medicare, TennCare, and Virginia Medicaid were as follows:

		2011	2010
Net patient service revenue:			
Medicare	$	286,977	277,372
TennCare		23,575	22,918
Virginia Medicaid		22,555	23,536
Net patient accounts receivable:			
Medicare	$	34,671	41,125
TennCare		2,798	2,206
Virginia Medicaid		3,427	3,739

Wellmont has filed cost reports with Medicare and Virginia Medicaid. The cost reports are subject to final settlement after audits by the fiscal intermediary. The Medicare and Virginia Medicaid cost reports have been audited and final settled by the intermediary through June 30, 2006 and audit adjustments have been received and considered for certain hospital and year-ends through June 30, 2010.

Wellmont has also entered into reimbursement agreements with certain commercial insurance companies, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, per diem rates, and discounts from established charges.

Net patient service revenue is reported at the net amounts billed to patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated retroactive adjustments are accrued in the period the related services are rendered and adjusted in future periods as changes in estimated provisions and final settlements are determined. Net patient service revenue increased approximately $2,319 and $863 in 2011 and 2010, respectively, due to final settlements and revised estimates in excess of amounts previously recorded, removal of allowances previously estimated that are no longer necessary as a result of audits and final settlements, and years that are no longer subject to audits, reviews, and investigations.

Estimated settlements recorded at June 30, 2011 could differ materially from actual settlements based on the results of third-party audits.

(5) Charity Care and Community Services

Wellmont accepts all patients within its primary service area regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies that consider, among other factors, generally recognized poverty income levels.

Wellmont maintains records to identify and monitor the level of charity care it provides. Charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services, and the equivalent percentage of charity care patients to all patients serviced were $61,824, $18,080, and 2.73%, respectively, for the year ended June 30, 2011 and $54,492, $15,567, and 2.52%, respectively, for the year ended June 30, 2010.

(Dollars in thousands)

In addition to the charity care services described above, Wellmont provides a number of other services to benefit the indigent for which little or no payment is received. Medicare, Medicaid, and State indigent programs do not cover the full cost of those services. The shortfall between actual receipts from those programs and Wellmont's cost of providing care to those patients totaled $56,658 and $55,461 for the years ended June 30, 2011 and 2010, respectively.

Wellmont also provides services to the community at large for which it receives little or no payment. Health evaluations, screening programs, and specific services for the elderly and homebound are other services supplied. Wellmont also provides public health education, trains new health professionals and conducts health research.

(6) Investment in Affiliates

Wellmont has investments with other healthcare providers, which include hospital, home care, regional laboratories, and other healthcare-related organizations. Wellmont records its share of equity in the operations of the respective organizations. Equity in earnings of affiliates was approximately $4,478 and $6,773 for the years ended June 30, 2011 and 2010, respectively, and is included in other operating revenue in the consolidated financial statements. During FY2011, Wellmont Health Services, Inc. 20% membership interest in Spectrum Tennessee Network, LLC was exchanged through a capital contribution for a 1.19% membership interest in Lab Group Holdings, LLC. Wellmont received distributions of $5,320 and $6,730 during 2011 and 2010, respectively, which reduced Wellmont's overall investment in the affiliates.

The following table summarizes the unaudited aggregate financial information of Wellmont's investments in affiliates:

		2011	2010
Total assets	$	127,545	129,720
Total liabilities		31,326	13,943
Total net assets	$	96,219	115,777
Net revenues	$	184,648	166,815
Expenses		171,070	142,534
Revenues in excess of expenses	$	13,578	24,281

(Dollars in thousands)

Wellmont's equity investment in these affiliates and its ownership percentage as of June 30, 2011 and 2010 are as follows:

	Amount		Percentage	
	2011	**2010**	**2011**	**2010**
Takoma Regional Hospital	$ 11,161	12,645	60%	60%
Holston Valley Imaging Center (HVIC)	8,689	8,048	75	75
Advanced Home Care (AHC)	6,092	6,092	6	6
Spectrum Tennessee Network	—	3,850	—	20
Lab Group Holdings LLC	3,500	—	1	—
Others	1,735	1,384	4% – 50%	4% – 50%
	$ 31,177	32,019		

Wellmont provided billing, management, and professional services to the affiliates. Income recognized by Wellmont for the services was $943 in 2011 and $1,766 in 2010 and is included in other revenues.

Included in other receivables are $0 and $124 as of June 30, 2011 and 2010, respectively, of amounts due to Wellmont from these entities.

Although Wellmont's ownership percentage in Takoma Regional Hospital and HVIC is greater than 50%, Wellmont does not consolidate these entities because Wellmont only has a 50% representation on each respective board and does not have control over these entities.

(Dollars in thousands)

(7) Investments

Long-term investments, including assets limited as to use, at June 30 are reported at fair value and consist of the following:

		2011	2010
Assets limited as to use by Board for capital improvements:			
Stock mutual funds	$	88,073	109,629
Bond mutual funds		112,176	71,698
Cash and money market funds		904	1,474
Real estate funds		8,475	7,468
Alternative investments (private equity, hedge funds, commingled funds, and real estate funds)			
Liquid		37,421	33,915
Illiquid		26,837	23,490
		273,886	247,674
Assets limited as to use under self-insurance agreements:			
Corporate bonds		7,877	6,867
Cash and money market funds		652	558
		8,529	7,425
Assets limited as to use under bond indenture agreements:			
Cash and money market funds		37,659	47,286
U.S. Treasury bonds		1,215	1,237
Less assets limited as to use that are required for current liabilities		1,902	1,815
Assets limited as to use, net of current portion	$	319,387	301,807
Long-term investments:			
Stock mutual funds	$	12,198	9,279
Bond mutual funds		9,433	7,599
Preferred equity investment and related options		11,512	11,512
Cash, money market funds, and certificates of deposit		191	287
Real estate funds		832	1,722
Alternative investments (private equity, hedge funds, commingled funds, and real estate funds)		2,271	1,992
Total long-term investments	$	36,437	32,391

Investments in certain alternative limited partnership investments contain agreements whereby Wellmont is committed to contribute approximately $8,805 as of June 30, 2011 of additional funds to the limited partnerships in the form of capital calls at the discretion of the general partner, of which $353 was paid subsequent to June 30, 2011.

(Dollars in thousands)

Wellmont has invested $10,000 in the preferred equity of a regional managed services organization and $1,512 on a right of first refusal related to any future sale of this organization. This equity has a guaranteed annual return of at least 6.5% of the outstanding preferred equity balance.

Wellmont's investments are concentrated in stock and bond mutual funds. In the event of a downward trend in the stock and bond markets, Wellmont's overall market value of net assets could be adversely affected by a material amount. Investments in alternative investments are generally illiquid investments whose value is determined by the general partner such as hedge funds, private equity, commingled funds and real estate funds. Distributions are only at the discretion of a voting majority of the general partners.

Wellmont evaluates whether unrealized losses on investment securities indicate other-than-temporary impairment. Based on this evaluation, the Company recognized other-than-temporary impairment losses of $610 and $8,233 on investments as of June 30, 2011 and 2010, respectively. The unrealized losses on these mutual funds were primarily caused by the overall decline in the world's economy. Other-than-temporary impairment losses are considered as realized losses and are reported within "investment income" in the consolidated statements of operations and changes in net assets.

Gross unrealized losses on investments for which other-than-temporary impairments have not been recognized and the fair values of those investments, aggregated by the length of time that individual investments have been in a continuous unrealized loss position, at June 30, 2011 and 2010, were as follows:

	Less than 12 months		12 months or more		Total	
	Unrealized Losses	**Fair value**	**Unrealized Losses**	**Fair value**	**Unrealized Losses**	**Fair value**
2011:						
Alternative investments	$ —	—	402	5,421	402	5,421
Stock mutual funds	616	75,091	9	158	625	75,249
	$ 616	75,091	411	5,579	1,027	80,670

	Less than 12 months		12 months or more		Total	
	Unrealized losses	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**
2010:						
Alternative investments	$ —	—	910	4,219	910	4,219
Stock mutual funds	2,184	29,658	24,817	83,713	27,001	113,371
	$ 2,184	29,658	25,727	87,932	27,911	117,590

(Dollars in thousands)

Investment income is comprised of the following for the years ended June 30:

		2011	2010
Interest and dividends net of amounts capitalized	$	9,407	5,330
Realized gains (losses) on investments		976	(4,318)
Investment income, net	$	10,383	1,012
Change in net unrealized gains on investments	$	42,186	22,312

(8) Land, Buildings, and Equipment

Land, buildings, and equipment at June 30 consist of the following:

		2011	2010
Land	$	49,060	41,210
Buildings and improvements		509,382	488,285
Equipment		328,604	327,896
Buildings and equipment under capital lease obligations		39,661	39,591
		926,707	896,982
Less accumulated depreciation		(484,187)	(459,935)
		442,520	437,047
Construction in progress		12,417	13,158
Land, buildings, and equipment	$	454,937	450,205

Depreciation expense for the years ended June 30, 2011 and 2010 was $46,070 and $43,755, respectively. Included in depreciation expense is amortization related to capitalized software and equipment under capital leases. Accumulated amortization for equipment under capitalized software and lease obligations was $15,336 and $13,266 as of June 30, 2011 and 2010, respectively.

(Dollars in thousands)

(9) Other Long-Term Liabilities

Other long-term liabilities at June 30 consist of the following:

		2011	2010
Workers' compensation liability	$	7,812	6,606
Professional and general liability		12,830	11,183
Postretirement benefit obligation		7,763	5,861
Asset retirement obligation		2,912	3,710
Deferred gain on sale of assets		628	1,382
Derivative liability		11,588	12,943
Pension benefit liability		6,526	10,018
Other		474	524
		50,533	52,227
Less current portion		(8,527)	(7,251)
Total other long-term liabilities	$	42,006	44,976

(10) Short-Term Note Payable

At June 30, 2010, WHS had a $14,000 note payable with a variable interest rate based upon LIBOR plus 2% and a termination date of December, 2010. During 2011, the $14,000 note payable was paid in full.

(Dollars in thousands)

(11) Debt

(a) Long-Term Debt

Long-term debt consists of the following at June 30:

		2011	2010
Hospital Revenue Refunding Bonds, Series 2011	$	76,165	—
Hospital Revenue Bonds, Series 2010 (Bank Qualified)		14,968	—
Hospital Revenue Bonds, Series 2007A		55,000	55,000
Hospital Revenue Refunding Bonds, Series 2006C		200,000	200,000
Hospital Revenue Refunding Bonds, Series 2006A and 2006B		—	93,405
Hospital Revenue Refunding Bonds, Series 2005		59,580	61,810
Hospital Revenue Bonds, Series 2003		33,035	36,666
Notes payable		4,749	6,429
Capital lease obligations		16,889	19,698
Other		1,237	358
		461,623	473,366
Unamortized premium		7,287	7,538
Unamortized discount		(377)	(1,113)
		468,533	479,791
Less current maturities		(9,273)	(11,958)
	$	459,260	467,833

(b) Series 2011 Bonds

On May 5, 2011, Wellmont refunded the Revenue Bonds, Series 2006A, with the proceeds of the Revenue Bonds, Series 2011. The Series 2011 Bonds were issued by Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee on behalf of Wellmont. Under the terms of the bond indenture, the proceeds were used to advance refund the Revenue Bonds, Series 2006A and to pay the costs of issuing the Series 2011 Bonds.

In order to refund the Series 2006A Bonds, Wellmont made a tender offer to the holders of the Series 2006A Bonds. The holders of all outstanding Series 2006A Bonds agreed to tender their Series 2006A Bonds to Wellmont. Proceeds of the Series 2011 Bonds were used to pay the purchase price of Series 2006A Bonds tendered for purchase. All outstanding Series 2006A Bonds were purchased by the Wellmont on the date of issuance of the Bonds and were immediately surrendered to the trustee for the Series 2006A Bonds for retirement and cancellation.

The Series 2011 Bonds were issued with two maturities of $42,385 and $33,780 for 2026 and 2032, respectively. The Series 2011 Bonds maturing September 1, 2026 are subject to mandatory redemption prior to maturity pursuant to the operation of a sinking fund, in part by lot starting on the redemption dates starting on September 1, 2013 and ending on September 1, 2026 in annual amounts ranging from $865 to $4,680. The Series 2011 Bonds maturing September 1, 2032 are subject to mandatory redemption prior to maturity pursuant to the operation of a sinking fund, in part by lot starting on the redemption dates starting on September 1, 2027 and ending on September 1, 2032 in annual amounts ranging from $4,980 to $6,300. The Series 2011 Bonds were issued as fixed rate obligations at 6.0% and 6.5% for the two maturities (2026 and 2032, respectively).

(c) Series 2010 Bank Qualified Bonds

On November 1, 2010, The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee (the Board) issued $30,000 Hospital Revenue Bonds, Series 2010 (Bank Qualified). The Series 2010 Bonds were issued and sold pursuant to the Bond Purchase Agreement dated as of November 1, 2010, between the Board and First Tennessee Bank National Association. As of June 30, 2011, Wellmont has received advances on the bonds in the amount of $14,968.

Commencing on January 1, 2011, and continuing on the first day of each fiscal quarter thereafter, WHS shall pay accrued interest on the outstanding balance of the loan. Commencing on October 1, 2011 and continuing on the first day of each fiscal quarter thereafter, WHS shall also make principal payments equal to $500,000. The outstanding bonds accrue interest at a rate equal to the product of 65% of the sum of LIBOR plus the applicable margin which at June 30, 2011 was set at 1.95%.

(d) Series 2007 Bonds

On July 24, 2007, The Virginia Small Business Financing Authority issued, on behalf of Wellmont, $55,000 of Hospital Revenue Bonds, Series 2007A. The Series 2007A Bonds, with other methods of financing, were used to purchase the assets of Mountain View Regional Medical Center and Lee Regional Medical Center.

Principal on outstanding Series 2007A Bonds is payable through maturity or mandatory sinking fund redemption in annual amounts ranging from $360 to $2,460 commencing on September 1, 2017 through September 1, 2036, with a balloon payment of $29,245 due on September 1, 2037. The outstanding bonds accrue interest at rates ranging from 5.125% to 5.25%.

(e) Series 2006 C

On October 26, 2006, The Health, Educational and Housing Facilities Board of the County of Sullivan Tennessee issued, on behalf of Wellmont, $200,000 of Hospital Revenue Bonds, Series 2006C. The Series 2006C Bonds were used to: finance the costs of acquisition of land for expansion, construction, expansion, equipping, and renovation of HVMC, including the construction of a new patient tower (collectively known as Project Platinum); finance the costs of the construction, expansion, equipping, and renovation of the emergency department at BRMC (the Bristol Emergency Department Project); and finance the costs of construction, expansion, renovation and equipping of an operating room and related facilities at HCMH.

(Continued)

Principal on outstanding Series 2006C Bonds is payable through maturity or mandatory sinking fund redemption in annual amounts ranging from $1,605 to $25,330 commencing on September 1, 2017 through September 1, 2036. The outstanding bonds accrue interest at rates ranging from 5.00% to 5.25%.

(f) Series 2006 A and B

On June 23, 2006, The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee, issued, on behalf of Wellmont, $98,475 of Hospital Revenue Refunding Bonds, Series 2006. This bond issuance consisted of Series A tax-exempt and Series B taxable bonds of $76,595 and $21,880, respectively. The Series 2006 Bonds together with other available funds were used to advance refund all the previously issued Hospital Revenue Bonds, Series 1993, to reimburse Wellmont for payments made on other taxable borrowings and to pay certain expenses incurred in connection with the issuance of the Series 2006 Bonds. Upon this refunding, a trust was established to pay all future bond payments related to the Series 1993 Bonds. Wellmont was deemed to have paid the Series 1993 Bonds and these Bonds are no longer deemed to be outstanding for purposes of the Series 1993 Trust Indenture.

Principal on outstanding Series 2006A Bonds was payable through maturity or mandatory sinking fund redemption in annual amounts ranging from $875 to $6,400 commencing on September 1, 2013 through September 1, 2032; and the outstanding bonds accrued interest on a variable rate, which was reset monthly based upon the AAA-insured Municipal Market Data Index, plus 85 basis points. Principal on outstanding Series 2006B Bonds was payable through maturity in annual amounts ranging from $1,600 to $2,930 commencing on September 1, 2007 through September 1, 2016, and the outstanding bonds accrued interest at a fixed rate of 6.95%.

Outstanding Series 2006A Bonds were subject to redemption prior to maturity at the option of The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee, upon direction by Wellmont in whole at any time, or in part on any certain specified days at redemption prices of 100%-102% of the principal amount of the Series 2006A Bonds being redeemed, plus accrued interest thereon to the redemption date.

On October 1, 2010, the Series 2006B Bonds were called and paid in full at par value of $14,880.

On May 5, 2011, the Series 2006A Bonds were refunded with the proceeds of the Revenue Bonds, Series 2011.

(g) Series 2005

On December 8, 2005, The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee, issued, on behalf of Wellmont, $70,620 of Hospital Revenue Refunding Bonds, Series 2005. The Series 2005 Bonds together with other available funds were used to advance refund the previously issued Hospital Revenue Bonds, Series 2002, and to pay certain expenses incurred in connection with the issuance of the Series 2005 Bonds.

Principal on outstanding Series 2005 Bonds is payable through maturity or mandatory sinking fund redemption in annual amounts ranging from $1,945 to $3,390 commencing on September 1, 2007 through September 1, 2032. The terms of the bonds provide that bondholders may redeem or put the bonds to the remarketing agent on dates that approximate a weekly basis. The remarketing agent is obligated to remarket the redeemed bonds on a "best efforts" basis. Redeemed bonds are repaid to bondholders from the proceeds of the remarketing effort or, in the event of an inability to remarket the bonds, from a letter of credit. This letter secures the bonds in the event of a failed remarketing or liquidity issue. In the event of a liquidity drawing under the letter of credit, Wellmont shall pay the Base Rate equal to the greater of (i) the Prime Rate plus 1.5% per annum, (ii) LIBOR plus 2.5% per annum, or (iii) 7.50% per annum. Wellmont shall repay the liquidity drawing amount in twelve equal quarterly installments, with the first such installment due on the first anniversary of the related liquidity drawing.

Outstanding Series 2005 Bonds are subject to redemption prior to maturity at the option of The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee, upon direction by Wellmont in whole at any time, or in part on any certain specified days at redemption prices of 100%-102% of the principal amount of the Series 2005 Bonds being redeemed, plus accrued interest thereon to the redemption date.

(h) Series 2003

On June 1, 2003, The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee, issued, on behalf of Wellmont, $59,100 of Hospital Revenue Bonds, Series 2003. The bonds were issued to provide funds necessary to refund Wellmont's Hospital Revenue Bonds, Series 1993 (HVHC), to fund a debt service reserve fund and to pay certain expenses incurred in connection with the issuance of the Series 2003 Bonds.

The Wellmont Series 2003 Bonds consist of $27,460 in fixed-rate serial bonds and $19,280 in fixed-rate term bonds payable through maturity or mandatory sinking fund redemption maturing in annual amounts ranging from $3,230 on September 1, 2007 to $4,140 on September 1, 2019, and carrying interest rates ranging from 2.5% to 5.00%.

(i) Master Trust Indenture

The master trust indentures and loan agreements for the 2011, 2010, 2007, 2006, 2005, and 2003 bonds contain certain requirements regarding deposits to trustee funds, maintenance of rates, maintenance of debt service coverage and liquidity, permitted indebtedness, and permitted disposition of assets. Gross receipts of Wellmont collateralize the bonds. The purpose of the master trust indenture is to provide a mechanism for the efficient and economical issuance of notes by individual members of Wellmont using the collective borrowing capacity and credit rating of Wellmont. The master trust indenture requires individual members of Wellmont to make principal and interest payments on notes issued for their benefit. The master trust indenture also requires Wellmont members to make payments on notes issued by other members of Wellmont if such other members are unable to satisfy their obligations under the master trust indenture. Payments of principal and interest on certain bonds are also insured by bond insurance policies.

(Dollars in thousands)

Funds held by the trustee related to the various revenue bonds are available for specific purposes. The bond interest and revenue funds may be used only to pay interest and principal on the bonds; the debt service reserve fund may be used to pay interest and principal if sufficient funds are not available in the bond interest and revenue funds. The original issue discount and premium on all Bond Series outstanding are being amortized over the life of the bond issue using the effective-interest method.

(j) Notes Payable

During 2007, Wellmont entered into a five-year $3,000 note payable, which has a fixed interest rate of 7.25% and a termination date of July 2011. At June 30, 2011 and 2010, $1,784 and $2,062, respectively, was outstanding on this note.

During 2008, Wellmont entered into a five-year $2,400 term note payable, which has a fixed interest rate of 7.25% and a termination date of August 2012. At June 30, 2011 and 2010, $1,120 and $1,600, respectively, was outstanding on this note.

During 2010, Wellmont entered into a $2,767 note payable to finance the purchase of Cardiovascular Associates. The note payable has a fixed interest rate of 5.5% and a termination date of May, 2013. At June 30, 2011 and 2010, $1,845 and $2,767, respectively, was outstanding on this note.

(k) Capital Lease Obligations

Wellmont has entered into leases for certain equipment under agreements classified as capital leases that expire over periods through 2011. Assets under capital leases are included in property and equipment and have a net carrying value of $24,325 and $26,325 as of June 30, 2011 and 2010, respectively. Amortization of capital assets is included in depreciation expense. The lease obligations are recorded at the net present value of the minimum lease payments with interest rates from 4.3% to 12%.

(l) Long-term Debt Maturities Schedule

Bond maturities in accordance with the original terms of the Master Trust Indenture and other long-term debt maturities for each of the next five years and in the aggregate at June 30, 2011 are as follows:

2012	$	9,273
2013		13,454
2014		9,572
2015		9,608
2016		9,896
Thereafter		409,820
	$	461,623

(Dollars in thousands)

The following table reflects the required repayment terms for the years ended June 30 of Wellmont's debt obligations in the event that the put options associated with the 2005 bonds were exercised, but not successfully remarketed.

2012	$ 9,273
2013	25,337
2014	26,110
2015	26,032
2016	11,887
Thereafter	362,984
	$ 461,623

Interest paid for the years ended June 30, 2011 and 2010 was $20,750 and $20,792, respectively, net of amounts capitalized. Interest costs of $590 and $2,776, net of interest income of $49 and $683 in 2011 and 2010, respectively, were capitalized.

(12) Derivative Transactions

Wellmont is a party to a number of interest rate swap agreements. Such swaps have not been designated as hedges and are valued at estimated fair value in the accompanying consolidated balance sheets. By using derivative financial instruments to hedge exposures to changes in interest rates, Wellmont exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes Wellmont, which creates credit risk for Wellmont. When the fair value of a derivative contract is negative, Wellmont owes the counterparty, and therefore, Wellmont is not exposed to the counterparty's credit risk in those circumstances. Pursuant to the terms of its interest rate swap agreements, Wellmont is required to post collateral with its counterparties under certain specified conditions. Collateral posting requirements are based on the amount of Wellmont's derivative liability and Wellmont's bond rating. As of June 30, 2011, and 2010, Wellmont was not required to post collateral related to its swaps.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

In September and October, 2008, the counterparty and credit support provider, for four of the swaps held at June 30, 2010, filed bankruptcy. Subsequent to the bankruptcy filings and into 2011, no payments were made by Wellmont or the counterparty to each other. During 2011, Wellmont and the counterparty agreed to settle all amounts due on the swaps for net cash flow receivables or payables. The bankruptcy process is underway and the ultimate outcome regarding any final settlement cannot be determined at this time.

Wellmont has a Total Return Swap on the Series 2011 Bonds with a new counterparty.

Management's primary objective in holding such derivatives is to introduce a fixed or variable rate component into its variable rate debt structure using LIBOR rates. The fair value as of June 30, 2011 and

(Dollars in thousands)

2010 of approximately $(11,588) and $(12,943), respectively, is included in other liabilities in the consolidated balance sheets. The change in the fair value of the derivative instruments was approximately $1,355 and $(2,693), respectively, in 2011 and 2010 and is included in nonoperating gains (losses), net in the consolidated statements of operations. The terms of the swap agreements allow netting of all amounts due from/to the counterparty. The following is a summary of the interest rate swap information as of June 30, 2011:

Type of interest swap	Debt hedging	Notional amount	Effective date	Maturity date	Rate paid	Rate received	Swap fair value asset (liability)
Total return swap	Series 2011	$ 76,165	May 5, 2011	September 1, 2032	1.440%	6.200%	$ (377)
Pay fixed interest rate swap	Series 2005	59,580	December 13, 2005	September 1, 2016	3.548	0.309	(5,954)
Basis swap	Series 2002	62,730	September 1, 2002	September 1, 2032	0.090	0.124	(1,715)
Pay fixed interest rate swap	*	35,342	October 24, 2003	September 1, 2021	3.613	0.124	(3,542)
							$ (11,588)

* Previously designated bond series has been refinanced.

The following is a schedule detailing the swap information as of June 30, 2010:

Type of interest swap	Debt hedging	Notional amount	Effective date	Maturity date	Rate paid	Rate received	Swap fair value asset (liability)
Total return swap	Series 2006A	$ 76,595	June 29, 2006	September 1, 2011	1.103%	5.440%	$ 1,101
Pay fixed interest rate swap	Series 2005	65,975	December 13, 2005	September 1, 2016	3.548	0.217	(6,810)
Basis swap	Series 2002	67,965	September 1, 2002	September 1, 2032	0.253	0.198	(2,710)
Pay fixed interest rate swap	Series 2006A	35,342	October 24, 2003	September 1, 2021	3.613	0.162	(4,524)
							$ (12,943)

(13) Pension and Other Postretirement Benefits

Wellmont sponsors a retirement program and defined contribution retirement plan (Retirement Plan) that covers substantially all employees. This program and the related Retirement Plan were created from amendments, restatements, and mergers of existing defined contribution plans at BRMC and HVMC. Wellmont makes annual contributions to the Retirement Plan in an amount equal to 3% of each participant's base wages and contributes an additional amount, based on each participant's voluntary contributions, which cannot exceed certain limits established in the Internal Revenue Code, up to 3% of each participant's wages. The total pension expense related to the Retirement Plan was $10,344 and $9,990 for the years ended June 30, 2011 and 2010, respectively.

HVMC sponsored a noncontributory, defined benefit pension plan covering substantially all its employees. However, effective June 30, 1996, this plan was frozen and no further benefits accrue. LPH also sponsors a defined benefit pension plan covering substantially all its employees.

(Dollars in thousands)

HVMC's defined pension benefits are actuarially determined based on a formula taking into consideration an employee's compensation and years of service. HVMC's funding policy is to make annual contributions to the plan based upon the funding standard developed by the plan actuary. This standard uses the projected unit credit actuarial cost method, including the amortization of prior service costs, over a 20-year period. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The LPH plan contains similar funding and actuarial policies.

On June 30, 2007, the HVMC plan merged into LPH plan and the plan name changed to Wellmont Health System Defined Benefit Plan. At the end of 2008, only a single defined pension plan exists. Collectively, the two defined benefit plans are referred to as the "Plans." Effective June 30, 2010, the plan was frozen for all Lonesome Pine Hospital employees and no further benefits will be accrued.

Wellmont recognizes the funded status (i.e., difference between the fair value of plan assets and projected benefit obligations) of its defined benefit pension plans as an asset or liability in its consolidated balance sheet and recognizes changes in that funded status in the year in which the changes occur as a change in unrestricted net assets. All defined benefit pension plans use a June 30 measurement date.

The following table sets forth the funded status of the combined Plans, amounts recognized in the accompanying consolidated financial statements, and assumptions at June 30:

		2011	2010
Change in benefit obligation:			
Benefit obligation at beginning of year	$	44,565	40,035
Service cost		220	230
Interest cost		2,390	2,432
Actuarial losses		896	4,008
Benefits paid		(2,239)	(2,140)
Curtailments *		(495)	—
Benefit obligation at end of year		45,337	44,565
Change in plan assets:			
Fair value of plan assets at beginning of year		34,547	33,326
Actual return on plan assets		6,503	3,361
Benefits paid		(2,239)	(2,140)
Fair value of plan assets at end of year		38,811	34,547
Funded status	$	(6,526)	(10,018)
Amounts recognized in the accompanying consolidated balance sheets:			
Pension benefit liability (other long-term liabilities)	$	(6,526)	(10,018)

* Reflects frozen benefit accruals for Lonesome Pine participants as of June 30, 2011.

(Dollars in thousands)

		2011	2010
Amounts not yet reflected in net periodic benefit cost and included as an accumulated charge to unrestricted net assets:			
Unrecognized actuarial loss	$	8,565	13,158
Unrecognized prior service cost		—	2
Net amounts included as an accumulated charge to unrestricted net assets	$	8,565	13,160
Calculation of change in unrestricted net assets:			
Accumulated charge to unrestricted net assets, end of year	$	8,565	13,160
Reversal of accumulated charge to unrestricted net assets, prior year		(13,160)	(10,853)
Change in unrestricted net assets	$	(4,595)	2,307
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:			
Prior service credit adjustment for curtailment	$	(1)	—
Actuarial (gain) loss arising during the year		(3,763)	2,907
Amortization of actuarial loss		(831)	(600)
Amortization of prior service cost		—	—
Net amounts recognized as a charge to unrestricted net assets	$	(4,595)	2,307

(Dollars in thousands)

		2011	2010
Estimate of amounts that will be amortized from unrestricted net assets to net pension cost in 2012:			
Amortization of net loss	$	382	791
Amortization of prior service cost		—	—
Estimated future benefit payments:			
Fiscal 2012		2,276	2,220
Fiscal 2013		2,369	2,337
Fiscal 2014		2,492	2,472
Fiscal 2015		2,596	2,578
Fiscal 2016 (FY10 fiscal 2016 – 2020)		2,671	14,278
Fiscal 2017 – 2021		14,819	
Weighted average assumptions used to determine benefit obligations:			
Settlement (discount) rate		5.50%	5.50%
Weighted average rate of increase in future compensation levels		3.00	3.00
Components of net periodic benefit cost (benefit):			
Service cost	$	220	230
Interest cost		2,390	2,432
Expected return on plan assets		(2,340)	(2,259)
Amortization of net loss		831	600
Amortization of unrecognized prior service cost curtailments		1	—
Net periodic benefit cost	$	1,102	1,003
Weighted average assumptions used to determine net periodic benefit cost:			
Settlement (discount) rate		5.50%	6.25%
Expected long-term return on plan assets (HVMC)		7.00	7.00
Expected long-term return on plan assets (LPH)		7.00	7.00
Weighted average rate of increase in future compensation levels		3.00	3.00

Wellmont's overall expected long-term rate of return on assets is 7.00%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Wellmont has developed a Plan investment policy, which is reviewed and approved by the board of directors. The policy established goals and objectives of the fund, asset allocations, asset classifications, and manager guidelines. The policy dictates a target asset allocation and an allowable range for such categories based on quarterly investment fluctuations. Investments are managed by independent advisers who are monitored by management and the board of directors.

(Dollars in thousands)

The table below shows the target allocation and actual asset allocations as of June 30, 2011 and 2010:

Asset	Target allocation	2011	2010
Equity securities	65%	46%	56%
Fixed income	28	35	27
Cash	5 – 15%	2	1
Other	5 – 15%	17	16

Wellmont monitors the asset allocation and executes required recalibrations of the portfolio allocation on a regular basis in response to fluctuations in market conditions and the overall portfolio composition.

HVMC also participates in a health and welfare plan for its retirees. The plan provides postretirement medical and life insurance benefits to certain employees who meet minimum age and service requirements. Effective January 1, 1995, the death benefit was changed to provide a flat $5 benefit to all future retirees. During 1995, the medical program for retirees was amended to terminate medical benefits for any active employees who would not meet the full eligibility requirements of the program by January 1, 1996. The plan is contributory and contains other cost-sharing features such as deductibles and coinsurance.

(Dollars in thousands)

The following table sets forth the postretirement plan's funded status, amounts recognized in the accompanying consolidated financial statements, and assumptions at June 30:

		Postretirement benefits	
		2011	**2010**
Change in benefit obligation:			
Benefit obligation at beginning of year	$	5,861	5,653
Interest cost		365	320
Plan participants contributions		79	73
Actuarial losses		1,686	197
Benefits Paid		(228)	(382)
Benefit obligation at end of year		7,763	5,861
Change in plan assets:			
Fair value of plan assets at beginning of year		—	—
Employer contribution		149	309
Plan participants contributions		79	73
Benefits paid		(228)	(382)
Fair value of plan assets at end of year		—	—
Funded Status	$	7,763	5,861
Amounts recognized in the consolidated balance sheets consist of:			
Noncurrent assets	$	—	—
Current liabilities		(271)	(499)
Noncurrent liabilities		(7,492)	(5,362)
Accumulated charge to unrestricted net assets		1,755	3,560
	$	(6,008)	(2,301)

Amounts recognized as an accumulated credit to unrestricted net assets consist of:

		2011	**2010**
Net actuarial gain	$	1,755	3,560

(Dollars in thousands)

Net periodic benefic cost recognized and other changes in plan assets and benefit obligations recognized in unrestricted net assets in 2011 and 2010 were:

		Postretirement benefits	
		2011	2010
Net periodic benefit cost			
Interest cost	$	365	320
Amortization of net gain		(119)	(319)
Net periodic benefit cost recognized		246	1
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:			
Net actuarial loss		1,686	197
Amortization of net gain		119	319
Total recognized as a charge to unrestricted net assets		1,805	516
Total recognized in net periodic benefit cost and unrestricted net assets	$	2,051	517

The net gain and prior service credit for the defined benefit postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $(88) and $(261), respectively. Weighted average assumptions used to determine benefit obligations for 2011 and 2010 were as follows:

	2011	2010
Discount rate	5.00%	5.00%
Rate of compensation increase	—	—
Healthcare cost trend rate	5.00	5.00

Weighted average assumptions used to determine net benefit cost for 2011 and 2010 were as follows:

	Postretirement benefits	
	2011	2010
Discount rate	5.00%	6.00%
Expected long-term rate of return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Healthcare cost trend rate	5.00	5.00

(Continued)

(Dollars in thousands)

Wellmont's overall expected long-term rate of return on assets is 7%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

For measurement purposes, a 5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2011.

The following table summarizes the effect of one-percentage-point increase/decrease in healthcare costs trends:

		2011	2010
Effect of one-percentage point increase in healthcare cost trend on:			
Service and interest cost	$	27	20
Accumulated pension benefit obligation		545	330
Effect of one-percentage point decrease in healthcare cost trend on:			
Service and interest cost		(24)	(18)
Accumulated pension benefit obligation		(486)	(294)

The asset allocations of Wellmont's pension and postretirement benefits as of June 30, 2011 and 2010, respectively, were as follows:

		Fair Value measurement at June 30, 2011 Pension benefits – plan assets			
		Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:					
Stock mutual funds	$	31,311	31,311	—	—
Cash and money market funds		764	764	—	—
Alternative funds		6,868	—	3,280	3,588
Total	$	38,943	32,075	3,280	3,588

(Dollars in thousands)

		Fair Value measurement at June 30, 2010 Pension benefits - plan assets			
		Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:					
Stock mutual funds	$	28,803	19,412	9,391	—
Cash and money market funds		244	244	—	—
Alternative funds		5,500	—	—	5,500
Total	$	34,547	19,656	9,391	5,500

The following table presents Wellmont's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) as defined in ASC 820 for the years ended June 30, 2011 and 2010:

		Alternative investments
Balance at June 30, 2009	$	5,133
Net change in value		254
Purchases, issuances, and settlements		113
Transfers in and/or out of Level 3 (net)		—
Balance at June 30, 2010		5,500
Net change in value		1,349
Purchases, issuances, and settlements		19
Transfers in and/or out of Level 3 (net)		(3,280)
Balance at June 30, 2011	$	3,588

(14) Self-Insurance Programs

Wellmont is self-insured for professional and general liability and workers' compensation liability. Consulting actuaries have been retained to determine funding requirements and estimate claim liability exposures. Wellmont has established revocable self-insurance trust funds to provide for professional and general liability claims and workers' compensation claims and related expenses. Wellmont's contributions to the self-insurance trusts are based upon actuarial determinations by an independent service company. The professional and general liability self-insurance program is supplemented by umbrella excess liability policies consisting of various layers of coverage with commercial carriers based on policy year. The workers' compensation program is supplemented for Tennessee and Virginia by excess workers' compensation policies, with a commercial carrier for statutory limits per occurrence. Provisions based on actuarial estimates are made for the ultimate cost of claims asserted, as well as estimates of claims incurred but not reported as of the respective consolidated balance sheet dates. Insurance expense under these programs amounted to approximately $4,692 and $3,414 for the years ended June 30, 2011 and 2010, respectively, and are included in other expense in the accompanying consolidated statements of operations and changes in net assets.

(Dollars in thousands)

At June 30, 2011 and 2010, Wellmont was involved in litigation relating to medical malpractice and workers' compensation claims arising in the ordinary course of business. There are also known incidents which occurred through June 30, 2011 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Claims have been filed requesting damages in excess of the amount accrued for estimated malpractice costs. Management of Wellmont is of the opinion that estimated professional and general liability amounts accrued at June 30, 2011 are adequate to provide for potential losses resulting from pending or potential litigation. Amounts of claim settlements may be more or less than what has been provided for by management. The ultimate settlement of claims could be different from recorded accruals, with such differences being potentially significant.

Wellmont is also self-insured for medical and other healthcare benefits provided to its employees and their families. A provision for estimated incurred but not reported claims has been provided in the consolidated financial statements.

(15) Commitments and Contingencies

Construction in progress at June 30, 2011 and 2010 relates primarily to the completion of certain buildings and renovations. Total costs to complete these and other projects were approximately $12,448 at June 30, 2011. Wellmont has entered into contracts of $12,448 related to these projects.

Wellmont leases certain equipment and office space under operating lease agreements. Total rental expense under cancelable and noncancelable agreements was $18,179 and $16,857 for the years ended June 30, 2011 and 2010, respectively. Minimum future lease payments under noncancelable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2011 are as follows:

2012	$	13,168
2013		10,071
2014		6,269
2015		5,491
2016		4,190
Thereafter		28,904
	$	68,093

Wellmont has entered into contractual employment relationships with physicians to provide services to Wellmont physician practices that are intended to qualify under the employee safe harbor of the Anti-Kickback Statute and the employee exception of the Physician Self-Referral Law. These contracts have terms of varying lengths, guarantee certain base payments, and may provide for additional incentives based upon productivity.

(Dollars in thousands)

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, such matters as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare fraud and abuse. 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. Management believes Wellmont is in compliance with fraud and abuse statutes and other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

(16) Functional Expense Disclosure

Wellmont provides healthcare services to residents within its geographic location. Expenses based upon functional classification related to providing these services during the years ended June 30 are as follows:

		2011	2010
Professional care of patients	$	636,403	583,222
Administrative and general		142,768	117,123
Fund-raising		913	1,235
	$	780,084	701,580

(17) Income Taxes

Wellmont, Inc. and its subsidiaries file consolidated federal and separate company state income tax returns. These companies have combined net operating loss carry forwards for federal income tax purposes of approximately $67,000 at June 30, 2011, which begin expiring in fiscal 2018 and expire through 2032. These net operating losses can be used to offset future consolidated taxable income of Wellmont, Inc. and subsidiaries. Wellmont Health System participates in certain activities that generate unrelated business taxable income. These activities have generated net operating losses in prior years, and Wellmont Health System files a Form 990-T with the IRS to report such activity. Wellmont Health System has net operating loss carry forwards for federal income tax purposes of approximately $1,766 for unrelated business activities. Management believes that it is not more likely than not that deferred tax assets arising from net operating loss carry forwards will be realizable. Accordingly, these are fully reserved at June 30, 2011 and 2010.

(Dollars in thousands)

(18) Concentration of Credit Risk

Wellmont grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2011 and 2010, was as follows:

	2011	2010
Medicare	42%	46%
TennCare	4	4
Medicaid	9	8
Other third-party payors	35	31
Patients	10	11
	100%	100%

(19) Disclosures about Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair value of each class of instruments:

- *Cash and Cash Equivalents*

  The carrying amount approximates fair value due to the short maturities of these instruments.

- *Patient Accounts and Other Receivables*

  The net recorded carrying value approximates fair value due to the short maturities of these instruments.

- *Investments and Assets Limited as to Use*

  The fair values of investments and assets limited as to use are based on quoted market prices and quotes obtained from security brokers or, in the case of the limited partnerships, by the general partner.

- *Accounts Payable and Accrued Expenses*

  The carrying amount approximates fair value due to the short maturities of these liabilities.

- *Estimated Third-Party Payor Settlements, Other Long-Term Liabilities*

  The carrying amount approximates fair market value due to the nature of these liabilities.

- *Long-Term Debt*

  The fair value of revenue bonds, using current market rates, was estimated at $419,960 and $422,290 for the years ended June 30, 2011 and 2010, respectively.

(b) Fair Value Hierarchy

On July 1, 2008, Wellmont adopted new guidance issued by FASB for fair value measurement of financial assets and financial liabilities and for fair value measurement of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis now codified into ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that Wellmont has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices including within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

In conjunction with the adoption of the new guidance, Wellmont elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12 to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends the previous guidance and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances may not equal fair value that would be calculated pursuant to ASC 820. The fair value of these investments was $66,529 and $59,397 at June 30, 2011 and 2010, respectively.

(Dollars in thousands)

The following table presents assets and liabilities that are measured at fair value on recurring basis at June 30, 2011:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 36,558	—	—	36,558
Assets limited as to use:				
Stock mutual funds	88,073	—	—	88,073
Bond mutual funds	112,176	—	—	112,176
Cash and money market funds	39,215	—	—	39,215
Real estate funds	8,475	—	—	8,475
Alternative investments	—	26,480	37,778	64,258
Corporate bonds	7,877	—	—	7,877
U.S. Treasury bonds	1,215	—	—	1,215
Subtotal	293,589	26,480	37,778	357,847
Long-term investments:				
Stock mutual funds	12,198	—	—	12,198
Bond mutual funds	9,433	—	—	9,433
Cash and money market funds	191	—	—	191
Real estate funds	832	—	—	832
Alternative investments	—	2,271	—	2,271
Subtotal	22,654	2,271	—	24,925
	$ 316,243	28,751	37,778	382,772
Liabilities:				
Derivatives liability	$ —	11,588	—	11,588
Total	$ —	11,588	—	11,588

(Dollars in thousands)

The following table presents assets and liabilities that are measured at fair value on recurring basis at June 30, 2010:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 35,711	—	—	35,711
Assets limited as to use:				
Stock mutual funds	109,629	—	—	109,629
Bond mutual funds	71,698	—	—	71,698
Cash and money market funds	49,318	—	—	49,318
Real estate funds	7,468	—	—	7,468
Alternative investments	—	18,043	39,362	57,405
Corporate bonds	6,867	—	—	6,867
U.S. Treasury bonds	1,237	—	—	1,237
Subtotal	281,928	18,043	39,362	339,333
Long-term investments:				
Stock mutual funds	9,279	—	—	9,279
Bond mutual funds	7,599	—	—	7,599
Cash and money market funds	287	—	—	287
Real estate funds	1,722	—	—	1,722
Alternative investments	—	1,992	—	1,992
Subtotal	18,887	1,992	—	20,879
	$ 300,815	20,035	39,362	360,212
Liabilities:				
Derivatives liability	$ —	12,943	—	12,943
Total	$ —	12,943	—	12,943

(Continued)

(Dollars in thousands)

The following table presents Wellmont's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820 for the years ended June 30, 2011 and 2010:

		Alternative investments
Balance at June 30, 2009:	$	33,291
Total realized and unrealized gains (losses)		
Included in revenues and gains in excess of expenses and losses		—
Included in changes in net assets		469
Purchases, issuances and settlements		5,602
Transfers in and/or out of Level 3 (net)		—
Balance at June 30, 2010		39,362
Total realized and unrealized gains (losses)		
Included in revenues and gains in excess of expenses and losses		
Included in changes in net assets		(3,401)
Purchases, issuances and settlements		1,817
Transfers in and/or out of Level 3 (net)		—
Balance at June 30, 2011	$	37,778

(20) Subsequent Events

WHS has evaluated subsequent events from the balance sheet date through October 27, 2011, the date at which the financial statements were available to be issued. No material subsequent events were identified for recognition.

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

WELLMONT HEALTH SYSTEM AND AFFILIATES

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KPMG LLP
Suite 1000
401 Commerce Street
Nashville, TN 37219-2422

Independent Auditors' Report

The Board of Directors
Wellmont Health System:

We have audited the accompanying consolidated balance sheets of Wellmont Health System and affiliates (Wellmont) as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Wellmont'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 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 Wellmont's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wellmont Health System and affiliates as of June 30, 2012 and 2011, and the consolidated results of their operations and changes in their net assets, and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, Wellmont changed its presentation of provision for bad debts as a result of the adoption of Accounting Standards Update No. 2011-07, *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*.

KPMG LLP

October 24, 2012

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Balance Sheets

June 30, 2012 and 2011

(Dollars in thousands)

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents	$	44,930	36,558
Assets limited as to use, required for current liabilities		4,372	1,902
Patient accounts receivable, less allowance for uncollectible accounts of approximately $25,656 and $24,246 in 2012 and 2011, respectively		108,265	101,565
Other receivables		23,805	9,904
Inventories		17,862	17,830
Prepaid expenses and other current assets		7,462	7,163
Total current assets		206,696	174,922
Assets limited as to use, net of current portion		339,030	319,387
Land, buildings, and equipment, net		458,048	454,937
Other assets:			
Long-term investments		36,633	36,437
Investments in affiliates		32,646	31,177
Deferred debt expense, net		5,419	5,847
Goodwill		17,090	16,721
Other		651	1,875
		92,439	92,057
Total assets	$	1,096,213	1,041,303
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	11,913	9,273
Accounts payable and accrued expenses		81,243	70,943
Estimated third-party payor settlements		15,535	9,533
Current portion of other long-term liabilities		5,782	8,527
Total current liabilities		114,473	98,276
Long-term debt, less current portion		459,654	458,882
Other long-term liabilities, less current portion		54,060	42,384
Total liabilities		628,187	599,542
Net assets:			
Unrestricted		458,218	434,661
Temporarily restricted		5,739	3,570
Permanently restricted		1,304	1,174
Total net assets attributable to Wellmont		465,261	439,405
Noncontrolling interests		2,765	2,356
Total net assets		468,026	441,761
Commitments and contingencies			
Total liabilities and net assets	$	1,096,213	1,041,303

See accompanying notes to consolidated financial statements.

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Revenue:			
Patient service revenue	$	813,229	767,450
Provision for bad debt		(71,407)	(37,858)
Net patient revenue less provision for bad debt		741,822	729,592
Other revenues		47,904	29,799
Total revenue		789,726	759,391
Expenses:			
Salaries and benefits		368,772	347,185
Medical supplies and drugs		164,397	160,565
Purchased services		79,509	80,348
Interest		21,677	20,750
Depreciation and amortization		46,403	46,059
Other		86,645	87,319
Total expenses		767,403	742,226
Income from operations		22,323	17,165
Nonoperating gains (losses):			
Investment income		17,272	10,383
Derivative valuation adjustments		1,807	1,355
Other, net		—	(519)
Gain on refinancing		—	1,042
Nonoperating gains, net		19,079	12,261
Revenue and gains in excess of expenses and losses before discontinued operations		41,402	29,426
Discontinued operations		88	44
Revenue and gains in excess of expenses and losses		41,490	29,470
Income attributable to noncontrolling interests		(1,670)	(1,238)
Revenues and gains in excess of expenses and losses attributable to Wellmont		39,820	28,232
Other changes in unrestricted net assets:			
Change in net unrealized gains on investments		(9,534)	42,186
Net assets released from restrictions for additions to land, buildings, and equipment		3,766	2,852
Change in the funded status of benefit plans and other		(10,495)	2,771
Increase in unrestricted net assets		23,557	76,041
Changes in temporarily restricted net assets:			
Contributions		6,661	2,566
Net assets released from temporary restrictions		(4,492)	(3,547)
Increase (decrease) in temporarily restricted net assets		2,169	(981)
Changes in permanently restricted net assets – investment income		130	6
Changes in noncontrolling interests:			
Income attributable to noncontrolling interests		1,670	1,238
Distributions to noncontrolling interests		(1,261)	(1,178)
Change in noncontrolling percentages		—	(92)
Increase (decrease) in noncontrolling interests		409	(32)
Change in net assets		26,265	75,034
Net assets, beginning of year		441,761	366,727
Net assets, end of year	$	468,026	441,761

See accompanying notes to consolidated financial statements.

WELLMONT HEALTH SYSTEM AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	26,265	75,034
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		46,403	46,070
Gain on disposal of land, buildings, and equipment		(458)	(864)
Equity in earnings of affiliated organizations		(7,233)	(4,478)
Distributions from affiliated organizations		5,764	5,320
Amortization of deferred financing costs		428	158
Net realized and unrealized loss (gain) on investments		2,633	(43,162)
Provision for bad debts		71,407	37,893
Change in fair value of derivative instruments		(1,807)	(1,355)
Gain on refinancing		—	(1,042)
Changes in assets and liabilities:			
Patient accounts receivable		(78,107)	(45,402)
Other current assets		(331)	303
Other assets		(13,920)	(538)
Accounts payable and accrued expenses		10,230	(6,729)
Estimated third-party payor settlements		6,002	(2,139)
Other current liabilities		(2,745)	1,276
Other liabilities		13,672	(63)
Net cash provided by operating activities		78,203	60,282
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		149,087	186,085
Purchase of investments		(174,029)	(164,635)
Purchase of land, buildings, and equipment		(46,026)	(42,352)
Proceeds from the sale of buildings and equipment		1,721	244
Cash paid for acquisitions		(813)	(7,826)
Net cash used in investing activities		(70,060)	(28,484)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		11,368	91,133
Payments on long-term debt		(11,139)	(106,069)
Payment of debt issuance costs		—	(2,015)
Payments on line of credit		—	(14,000)
Net cash provided by (used in) financing activities		229	(30,951)
Net increase in cash and cash equivalents		8,372	847
Cash and cash equivalents, beginning of year		36,558	35,711
Cash and cash equivalents, end of year	$	44,930	36,558

Supplemental disclosures of noncash items:

Wellmont entered into capital lease obligations for buildings and equipment in the amount of $3,281 and $5,785 in 2012 and 2011, respectively.

Additions to property and equipment financed through current liabilities of $2,487 and $2,933 in 2012 and 2011, respectively.

See accompanying notes to consolidated financial statements.

(1) Operations and Basis of Presentation

Wellmont Health System (Wellmont) was formed to assume operations of Bristol Regional Medical Center (BRMC) and Holston Valley Health Care, Inc. (HVHC), including Holston Valley Medical Center, Inc. (HVMC), and to act as sole corporate member of its consolidated foundation. Effective July 1, 1996, under terms of an agreement and plan of consolidation and merger, BRMC and HVHC, including HVMC, were merged and consolidated into Wellmont. Effective January 1, 1997, Lonesome Pine Hospital (LPH), a Virginia corporation, was merged into Wellmont under terms of a plan of merger and merger agreement. Effective July 1, 2000, Hawkins County Memorial Hospital (HCMH) transferred its operations and operating assets to Wellmont Hawkins County Memorial Hospital (WHCMH), a tax-exempt organization that is wholly owned and controlled by Wellmont. Hancock County Hospital (HCH), a critical access hospital, was opened in March 2005 to help provide for the immediate healthcare needs of the residents of Sneedville and the surrounding counties. As of July 16, 2007, Wellmont acquired Jenkins Community Hospital in Kentucky. As of August 1, 2007, Wellmont acquired two hospitals in Virginia, Lee Regional Medical Center in Pennington Gap and Mountain View Regional Medical Center in Norton. On May 30, 2008, Wellmont acquired the Holston Valley Cath Lab, an outpatient lab. On May 1, 2010, Wellmont acquired Cardiovascular Associates. On January 1, 2011, Wellmont acquired Pulmonary Associates of Kingsport.

As of April 30, 2009, Wellmont closed Jenkins. The consolidated financial statements for the years ended June 30, 2012 and 2011 present Jenkins as a discontinued operation. Losses of $4 and $120 for the years ended June 30, 2012 and June 30, 2011, respectively, are included in discontinued operations.

As of September 23, 2010 Wellmont sold the majority of Medical Mall Pharmacy's assets to a national pharmacy company for $1,300 plus inventory value and recorded a gain of approximately $517 at June 30, 2011. The consolidated financial statements for the years ended June 30, 2012 and 2011 present Medical Mall Pharmacy as a discontinued operation. The gains (losses) of $92 and $(353) for the years ended June 30, 2012 and June 30, 2011, respectively, are included in discontinued operations.

All acute care operations remain separately licensed and are treated as operating divisions within Wellmont. Wellmont's continuing operations consist primarily of the delivery of healthcare services in northeast Tennessee and southwest Virginia.

The consolidated financial statements include the acute care operations of the above entities along with:

- Wellmont Foundation (the Foundation), which was created from the merger of Bristol Regional Medical Center Foundation and Holston Valley Health Care Foundation, Inc. The Foundation conducts fund-raising activities for the benefit of Wellmont.
- Wellmont, Inc., a wholly owned taxable subsidiary of Wellmont, formed as the holding company of various other taxable subsidiaries that provide medical collection and medical laundry services, operate physician practices, provide other healthcare-related services, and invest in affiliates and other activities.

- The Alzheimer's Center of East Tennessee was merged into Wellmont and changed its name to Wellmont Madison House effective September 1, 1997. Wellmont is the sole corporate member and the consolidated financial statements include the operations of this entity.

All significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

(2) Significant Accounting Policies

A summary of significant accounting policies is as follows:

(a) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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. Significant estimates include: allowances for contractual adjustments and bad debts; third-party payor settlements; valuation of investments, land, buildings, equipment and goodwill; and self-insurance and other liabilities. Actual results could differ from these estimates.

(b) Cash and Cash Equivalents

Wellmont considers all highly liquid investments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board of directors' designation or other arrangements under trust agreements, to be cash equivalents.

(c) Investments

Marketable equity securities and debt securities are recorded at fair value and classified as other than trading. Fair value is determined primarily using quoted prices (unadjusted) in active markets for identical assets or liabilities that Wellmont has the ability to access at the measurement date. However, Wellmont also uses observable and unobservable inputs for investments without quoted market prices to determine the fair value of certain investments at the measurement date. Investments in limited partnerships are recorded at fair value as determined by the partnership using net asset value. Wellmont has adopted the measurement provisions of Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. Investments in affiliates in which Wellmont has significant influence but does not control are reported on the equity method of accounting, which represents Wellmont's equity in the underlying net book value. Long-term investments include those investments that have not been designated by the board of directors for specific purposes and are also not intended to be used for the liquidation of current liabilities. Investment income is recognized when earned.

Realized gains and losses are determined on the specific-identification method and included in investment income with interest and dividends. Investment income is reported net of related investment fees. Unrealized gains and losses are included in other changes in unrestricted net assets except for losses determined to be other than temporary, which are considered realized losses and included in investment income.

(d) Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under bond indenture and self-insurance agreements, as well as designated assets set aside by the board of directors for future capital improvements, over which the board of directors retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of Wellmont have been reclassified to current assets in the accompanying consolidated balance sheets.

(e) Inventories

Inventories are stated at the lower of cost or market value and are valued principally by the first-in, first-out and average-cost methods.

(f) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased, or fair value at date of donation. Depreciation is computed using the straight-line method based on the estimated useful life of the asset, ranging from 3 to 40 years. Buildings and equipment held under capital leases are recorded at net present value of future lease payments and are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Costs of maintenance and repairs are expensed as incurred. Upon sale or retirement of land, buildings, or equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss, if any, is included in other revenues on the consolidated statements of operations and changes in net assets. 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.

Wellmont evaluates long-lived assets for impairment on annual basis. Long-lived assets are considered to be impaired whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable from future cash flows. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. When such assets are considered to be impaired, the impairment loss recognized is measured by the amount by which the carrying value of the asset exceeds the fair value of the asset.

(Continued)

(Dollars in thousands)

(g) Goodwill

Effective July 1, 2010, Wellmont adopted Accounting Standards Update (ASU) No. 2010-07, *Not for Profit Entities: Mergers and Acquisitions* which in part requires healthcare entities to follow Accounting Standards Codification (ASC) Topic 350-20-35, *Intangibles – Goodwill and Other*. ASC Topic 350-20-35 requires goodwill of not-for-profit entities to be evaluated for impairment at least annually. The goodwill impairment test is a two-step test. Under the first step, the fair value of each reporting unit is compared with its carrying value (including goodwill). If the fair value of a reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. The annual impairment test is performed as of June 30. A summary of goodwill and related amortization for the years ended June 30 follows:

	2011	Additions	Decreases	2012
Goodwill	$ 16,721	369	—	17,090

	2010	Additions	Decreases	2011
Goodwill	$ 9,501	7,220	—	16,721

(h) Deferred Debt Expense

Deferred debt expense is amortized over the life of the related bond issues using the effective-interest method.

(i) Derivative Financial Instruments

As further described in note 12, Wellmont is a party to interest rate swap and other derivative agreements. These financial instruments are not designated as hedges and are presented at estimated fair market value in the accompanying consolidated balance sheets. These fair values are based on the estimated amount Wellmont would receive, or be required to pay, to enter into equivalent agreements with a third party at the valuation date. Due to the nature of these financial instruments, such estimates are subject to significant change in the near term. Wellmont recognizes changes in the fair values of derivatives as nonoperating gains or losses in the consolidated statements of operations and changes in net assets. The cash settlements resulting from these interest rate swaps are reported as interest expense in the consolidated statements of operations and changes in net assets.

(j) Asset Retirement Obligations

Asset retirement obligations (AROs) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value, and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Wellmont records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Wellmont derecognizes ARO liabilities when the related obligations are settled.

(k) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Wellmont has been limited by donors to a specific-time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Wellmont in perpetuity. Generally, donors of permanently restricted assets permit use of all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets relate primarily to amounts held by the Foundation and include amounts restricted for future capital expenditures and for operations of such areas as children's healthcare services, hospice, and cancer care.

Net assets are released from restrictions by Wellmont incurring expenses that satisfy the restricted purposes. Such net assets released during 2012 and 2011 primarily included amounts related to the purchase of equipment for pediatrics, cancer, and other healthcare operations.

Wellmont has adopted guidance issued by Financial Accounting Standards Board (FASB), which provides guidance on the net asset classification of donor-restricted endowment funds for a tax-exempt organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Effective July 1, 2007, the State of Tennessee adopted legislation that incorporates the provisions outlined in UPMIFA. Wellmont's endowments consist solely of donor-restricted endowment funds. Wellmont's endowments consist of five individual funds established for a variety of purposes.

Wellmont has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Wellmont classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are approved for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Wellmont considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the organization and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the organization; and (7) the investment policies of the organization.

(l) Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts expected to be collected. Net patient service revenue includes amounts estimated by management to be reimbursable by patients and various third-party payors under provisions of reimbursement formulas in effect, including retroactive adjustments under reimbursement agreements. Estimated retroactive adjustments are accrued in the period related services are rendered and adjusted in future periods as final and other settlements are determined. On the basis of historical experience, a significant portion of Wellmont's uninsured patients will be unable or unwilling to pay for the services provided. Therefore, Wellmont records a significant provision for bad debts related to uninsured patients in the period the services are provided. This provision for bad debts is presented on the statement of operations as a component of net patient revenue. Wellmont provides care to patients who meet criteria under its charity care policy without charge or at amounts less than its established rates. Because Wellmont does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenue.

Patient accounts receivable are reported net of both an allowance for contractual adjustments and an allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare, Medicaid, and other third-party payment programs. Wellmont's policy does not require collateral or other security for patient accounts receivable. Wellmont routinely obtains assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans, or policies.

(m) Revenue and Gains in Excess of Expenses and Losses

The consolidated statements of operations and changes in net assets include revenue and gains in excess of expenses and losses. Changes in unrestricted net assets that are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include changes in net unrealized gains (losses) on investments other than trading securities, changes in the funded status of Wellmont's defined-benefit plan, contributions of long-lived assets, including assets acquired using contributions that, by donor restriction, were to be used for the purposes of acquiring such assets, and cumulative effects of changes in accounting principles.

For purposes of financial statement display, those activities directly associated with Wellmont's mission of providing healthcare services are considered to be operating activities. Nonoperating activities primarily include investment and related activities. Other operating revenues primarily include cafeteria, rental, meaningful use incentives, and income from affiliates.

(n) Contributed Resources

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted contributions, and are excluded from revenue and gains in excess of expenses and losses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expiration of donor restrictions is reported when the donated or acquired long-lived assets are placed in service.

Unconditional promises to give cash or other assets are reported at fair value at the date the promise is received. Gifts are reported as either a temporarily or permanently restricted contribution if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions. Unrestricted contributions are included in other revenues.

(o) Federal Income Taxes

The Wellmont entities are primarily classified as organizations exempt from federal income taxes under Section 501(a) as entities described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included for these entities in the consolidated financial statements. The operations of Wellmont, Inc. are subject to state and federal income taxes, which are accounted for in accordance with ASC Topic 740, *Income Taxes*; however, such amounts are not material.

On July 1, 2007, Wellmont adopted new guidance issued on the accounting for uncertainty in income tax positions now codified into ASC 740. It also provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. There was no impact on Wellmont's consolidated financial statements as a result of the adoption of the new guidance.

(Continued)

(p) New Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board issued ASU No. 2010-23, *Measuring Charity Care for Disclosure* (ASU 2010-23). ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosures purposes and that cost can be identified as direct and indirect costs of providing charity care. The adoption of ASU 2010-23 as of July 1, 2011 had no impact on the consolidated financial statements. In August 2010, the Financial Accounting Standards Board issued ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24). ASU 2010-24 clarifies that healthcare entities should not net insurance recoveries against the related claim liability and that the claim liability amount should be determined without consideration of insurance recoveries. The adoption of ASU 2010-24 as of July 1, 2011 had no impact on the consolidated financial statements.

In July 2011, the Financial Accounting Standards Board issued ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07). Wellmont adopted ASU 2011-07 on July 1, 2011 and applied it retrospectively to fiscal year 2011. Wellmont's presentation of provision for bad debts in the consolidated statements of operations and changes in net assets is now shown as a deduction from net patient service revenue. In addition, there are enhanced disclosures about the entities policies for recognizing revenue and assessing bad debts. The ASU also requires disclosures of patient service revenue as well as qualitative and quantitative information about changes in the allowance for doubtful accounts.

The Financial Accounting Standards Board issued ASU No. 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment* (ASU 2011-08) in September 2011. ASU 2011-08 allows entities to assess qualitative factors first to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the initial determination is negative, then the entity does not need to perform the two-step impairment test. If the conclusion is otherwise, then the entity must perform the first step of the two-step impairment test. The adoption of ASU 2011-08 will be effective for Wellmont beginning in fiscal year 2013.

The Financial Accounting Standards Board issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* (ASU 2011011) in December 2011. This ASU requires improved disclosures about financial instruments and derivative instruments that are offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The adoption of ASU 2011-11 will be effective for Wellmont beginning in fiscal year 2014.

(q) Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 consolidated financial statement presentation. The reclassifications had no impact on total assets or changes in net assets.