

**Wellmont Health System and Affiliates**

**Consolidated Balance Sheets as of  
June 30, 2013 and June 30, 2012**

**Consolidated Statements of Operations and Changes in Net Assets  
and Statements of Cash Flows for the Quarters and Fiscal Years ended  
June 30, 2013 and June 30, 2012**

The following financial statements are unaudited but agree to  
the annual independent audit.

**Wellmont Health System**  
**Management Discussion and Analysis**  
**For the Quarter and Fiscal Year ended June 30, 2013**

**Volumes:**

Quarter:

Volumes were mixed compared to the same quarter last year. Inpatients were down 948 or 9.7% and observation patients were up 638 or 19.1% (so total "patients in a bed" was down 310 or 2.4%) primarily due to reduced inpatient utilization from the implementation of the accountable care organizations in our area. Emergency room visits were down 10.8% due to Wellmont now having three urgent care centers as a more cost effective and patient friendly alternative, other outpatient volume was up 1.2%, and surgeries were down 3.5%. Deliveries were up 6.3% as a result of new physicians and physician office visits were up 14.0% primarily due to the urgent care centers.

Fiscal Year:

Volumes were also mixed compared to the prior fiscal year to date. Inpatients were down 2,323 or 5.8% and observation patients were up 72 or 0.5% (so total "patients in a bed" was 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.

**Statement of Operations:**

Quarter ended June 30, 2013 versus quarter ended June 30, 2012:

Net patient service revenue increased \$2.5 million or 1.3% from the same quarter last year. Other revenue decreased \$11.4 million primarily as a result of \$2.8 million of Electronic Health Record Meaningful Use amounts earned during the quarter being \$10.0 million below prior year amounts of \$12.8 million due to the timing of each facility's implementation.

Salaries and benefits increased \$0.4 million or 0.4%. Hospital productivity remained flat as compared to the same quarter last year. Supplies increased \$2.2 million or 5.4% due to a higher volume of orthopedic/spinal implant surgeries and robotic surgeries. Purchased services decreased \$1.1 million or 5.2% due to changes in physician agreements. Interest expense decreased \$0.3 million or 6.0%. Depreciation increased \$0.5 million or 4.1%.

Income from operations of \$1.9 million was below the same quarter last year by \$9.6 million due to the \$10.0 million decrease in Meaningful Use amounts earned during each quarter. Net income (shown as "Revenues and gains in excess of expenses and losses attributable to Wellmont Health System") of \$3.2 million was below the same quarter last year by \$19.9 million

due to the \$9.6 million decrease in income from operations, a \$3.8 million decrease in investment income, a \$4.4 million decrease in derivative valuation adjustments, and a \$2.4 million increase in the loss from discontinued operations (due to the closure of certain sleep lab operations in this quarter).

#### Fiscal Year:

Net patient service revenue increased \$14.0 million or 1.9% from the prior fiscal year. 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 this year which is essentially the same as the prior year 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. Hospital productivity remained flat as compared to the prior fiscal year. 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 (which was then decreased in the last quarter) 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 was below the prior fiscal year by \$9.5 million. Net income (shown as "Revenues and gains in excess of expenses and losses attributable to Wellmont Health System") of \$31.4 million was below the prior fiscal year by \$8.4 million due to the \$9.5 million decrease in income from operations and a \$2.1 million increase in the loss from discontinued operations (due to the closure of certain sleep lab operations), offset by a \$2.2 million increase in investment income and a \$0.5 million increase in derivative valuation adjustments.

#### Balance Sheet:

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.

## Wellmont Health System and Affiliates

The following table sets forth selected historical utilization statistics of the inpatient and other entities owned and operated by Wellmont for the quarters and fiscal years ended June 30, 2013 and June 30, 2012.

	<b>FY13 QTR 4</b>	<b>FY12 QTR 4</b>	<b>FY13 YTD</b>	<b>FY12 YTD</b>
<b>Hospital Statistics:</b>				
Acute Discharges	8,842	9,790	37,798	40,121
Observation Patients	3,982	3,344	13,741	13,669
Patients in Bed	12,824	13,134	51,539	53,790
Patient Days	36,499	41,495	162,459	173,533
Average Length of Stay (Days)	4.13	4.24	4.30	4.33
Daily Census including Observations	445	493	483	511
Emergency Room Visits	43,091	48,297	183,378	196,521
Outpatient Registrations excluding Observations, ER and Surgeries	53,379	52,761	210,044	209,024
Deliveries	560	527	2,309	2,021
<b>Surgical Cases:</b>				
Inpatient	2,309	2,346	9,101	9,176
Outpatient	6,326	6,606	25,118	25,957
Total Surgical Cases	8,635	8,952	34,219	35,133
<b>Physician Office Visits</b>	108,585	95,229	310,077	264,671

The following table shows the percentage of gross patient service revenue by payor for the fiscal years ended June 30, 2013 and June 30, 2012.

	<b>FY13 All Year</b>	<b>FY12 All Year</b>
Medicare	30.9%	32.1%
Medicare Managed Care	22.3%	20.8%
Medicaid	11.5%	11.4%
Managed Care	24.8%	25.3%
Self	7.6%	7.7%
Other	2.9%	2.7%
	100.0%	100.0%

**Wellmont Health System and Affiliates**  
**Consolidated Balance Sheets**  
**As of June 30, 2013 and June 30, 2012**  
**(Dollars in Thousands)(Unaudited)**

	As of 6/30/13	As of 6/30/12
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 55,958	\$ 44,930
Assets limited to use that are required for current liabilities	5,061	4,372
Patient accounts receivable	107,029	108,265
Other receivables	17,995	23,805
Inventories	18,361	17,862
Prepaid expenses & other current assets	8,949	7,462
Total current assets	213,353	206,696
Assets limited as to use, net of current portion	375,709	339,030
Land, buildings and equipment, net	474,730	458,048
Other assets:		
Long-term investments	28,628	36,633
Investments in affiliates	31,874	32,646
Deferred debt expense, net	5,178	5,419
Goodwill, net	15,096	17,090
Other	547	651
	81,323	92,439
Total assets	\$ 1,145,115	\$ 1,096,213
<b>Liabilities and net assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 15,002	\$ 11,913
Accounts payable and accrued expenses	84,300	81,243
Estimated third-party payor settlements	7,157	15,535
Current portion of other long-term liabilities	6,198	5,782
Total current liabilities	112,657	114,473
Long-term debt, less current portion	475,946	459,654
Other long-term liabilities, less current portion	41,567	54,060
Total liabilities	630,170	628,187
Net assets:		
Unrestricted	503,934	458,218
Temporarily restricted	6,927	5,739
Permanently restricted	1,311	1,304
Noncontrolling interests	2,773	2,765
Total net assets	514,945	468,026
Commitments and contingencies		
Total liabilities and net assets	\$ 1,145,115	\$ 1,096,213

**Wellmont Health System and Affiliates**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**The quarters and fiscal years ended June 30, 2013 and June 30, 2012**  
**(Dollars in Thousands)(Unaudited)**

	FY13 QTR 4	FY12 QTR 4	FY13 FYTD	FY12 FYTD
<b>Revenue:</b>				
Patient service revenue (net of contractual allowances and discounts)	206,684	209,538	809,517	811,882
Provision for bad debts	(16,158)	(21,464)	(55,029)	(71,407)
Net patient service revenue less provision for bad debts	190,526	188,074	754,488	740,475
Other revenue	9,960	21,352	43,735	47,904
Total revenue	200,486	209,426	798,223	788,379
<b>Expenses:</b>				
Salaries and benefits	96,866	96,505	381,210	368,288
Medical supplies and drugs	43,207	41,004	163,922	164,350
Purchased services	19,836	20,914	80,179	78,731
Interest	5,105	5,428	21,833	21,677
Depreciation and amortization	12,790	12,281	51,319	46,369
Other	20,749	21,741	86,816	86,501
Total expenses	198,553	197,873	785,279	765,916
Income from operations	1,933	11,553	12,944	22,463
<b>Nonoperating gains (losses):</b>				
Investment income	2,881	6,631	19,467	17,272
Derivative valuation adjustments	865	5,304	2,356	1,807
Nonoperating (losses), net	3,746	11,935	21,823	19,079
Revenues and gains in excess of expenses and losses before discontinued operations and noncontrolling interests	5,679	23,488	34,767	41,542
Discontinued operations	(2,253)	107	(2,167)	(52)
Revenues and gains in excess of expenses and losses	3,426	23,595	32,600	41,490
Income attributable to noncontrolling interests	(233)	(505)	(1,228)	(1,670)
Revenues and gains in excess of expenses and losses attributable to Wellmont Health System	3,193	23,090	31,372	39,820
<b>Other changes in unrestricted net assets:</b>				
Change in net unrealized gains (losses) on investments	(9,523)	(9,041)	6,157	(9,534)
Net assets released from restrictions for additions to land, buildings, and equipment	34	2,776	828	3,766
Change in the funded status of benefit plans and other	7,359	(10,495)	7,359	(10,495)
Increase (decrease) in unrestricted net assets	1,063	6,330	45,716	23,557
<b>Changes in temporarily restricted net assets:</b>				
Contributions	119	431	2,977	6,661
Net assets released from temporary restrictions	(239)	(2,963)	(1,789)	(4,492)
Increase in temporarily restricted net assets	(120)	(2,532)	1,188	2,169
<b>Changes in permanently restricted net assets:</b>				
Permanently restricted contributions and investment income	1	128	7	130
Increase (decrease) in permanently restricted net assets	1	128	7	130
<b>Changes in noncontrolling interests:</b>				
Income attributable to noncontrolling interests	199	505	1,228	1,670
Distributions to noncontrolling interests	(20)	(369)	(1,220)	(1,261)
Increase (decrease) in noncontrolling interests	179	136	8	409
Change in net assets	1,123	4,062	46,919	26,265
Net assets, beginning of period	513,822	463,964	468,026	441,761
Net assets, end of period	\$514,945	\$468,026	\$514,945	\$468,026

Certain amounts have been reclassified to conform to the current presentation.

**Wellmont Health System and Affiliates**  
**Consolidated Statement of Cash Flows**  
**The fiscal years ended June 30, 2013 and June 30, 2012**  
**(Dollars in Thousands)(Unaudited)**

	FY13 FYTD	FY12 FYTD
<b>Cash flows from operating activities:</b>		
<b>Change in net assets</b>	\$ 46,919	\$ 26,265
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	51,319	46,369
Net realized and unrealized (gains) losses on investments	(25,624)	(7,738)
Derivative valuation adjustments	(2,356)	(1,807)
(Gain) loss on sale of fixed assets	209	(458)
Increase (decrease) in cash due to changes in:		
Accounts Receivable	1,235	(6,700)
Inventories	(499)	(32)
Prepaid expenses and other current assets	3,634	(299)
Accounts payable and accrued expenses	3,056	10,300
Net decrease (increase) in other assets	(6,267)	(11,588)
<b>Net cash provided by operating activities</b>	71,626	54,312
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment, net	(68,209)	(44,305)
Transfer (to)/from Bond and Self-Insurance funds	8,230	1,122
Transfer (to)/from Board funds	(20,000)	(2,173)
Acquisitions	0	(813)
<b>Net cash (used) in investing activities</b>	(79,979)	(46,169)
<b>Cash flows from financing activities:</b>		
Proceeds from long term debt	33,855	11,368
Repayment of long term debt	(14,474)	(11,139)
<b>Net cash provided (used) in financing activities</b>	19,381	229
<b>Increase (decrease) in cash and cash equivalents</b>	11,028	8,372
<b>Cash and cash equivalents, beginning</b>	44,930	36,558
<b>Cash and cash equivalents, ending</b>	\$ 55,958	\$ 44,930

**Wellmont Health System and Affiliates**  
**Ratios**  
**(Dollars in thousands)**

	<b>6/30/13</b>	<b>6/30/12</b>
<b><u>Capitalization</u></b>		
Current portion of long-term debt	\$ 15,002	\$ 11,913
Short-term notes payable		
Long-term debt, less current portion	A 475,946	459,654
Total debt	<u>490,948</u>	<u>471,567</u>
Unrestricted net assets	B 503,934	458,218
Other net assets	11,011	9,808
Total net assets	<u>514,945</u>	<u>468,026</u>
Long-term debt plus Unrestricted net assets	A+B <u>\$979,880</u>	<u>\$ 917,872</u>
Long-term debt to Capitalization	A/(A+B) <u>0.486</u>	<u>0.501</u>
<b><u>Debt Service Coverage</u></b>		
Revenue and gains in excess of expenses and losses (12 months)	\$ 31,372	\$ 39,820
Add back:		
Depreciation and amortization (12 months)	51,319	46,369
Interest expense (12 months)	21,833	21,677
(Gain) loss from discontinued operations (12 months)	2,167	52
Total income available for debt service per Master Trust Indenture	C <u>106,691</u>	<u>107,918</u>
Maximum annual debt service	D <u>\$ 41,310</u>	<u>\$ 35,157</u>
Debt Service Coverage Ratio per Master Trust Indenture	C/D <u>2.58</u>	<u>3.07</u>
<b><u>Days Cash on Hand</u></b>		
Unrestricted cash	\$ 55,958	\$ 44,930
Unrestricted investments:		
Capital improvements	341,596	297,981
Long-term investments	28,628	36,633
Less illiquid investments	(27,528)	(38,621)
	E <u>398,654</u>	<u>340,923</u>
Operating expenses (12 months)	785,279	765,916
Less depreciation and amortization	(51,319)	(46,369)
Total cash expenses	<u>733,960</u>	<u>719,547</u>
Number of days in the period	365	366
Daily cash operating expenses	F <u>\$ 2,011</u>	<u>\$ 1,966</u>
Days cash on hand	E/F <u>198.3</u>	<u>173.4</u>