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Form **990**
Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

► The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047

2010

Open to Public Inspection

A For the 2010 calendar year, or tax year beginning **07/01/10**, and ending **06/30/11**

B Check if applicable

☐ Address change☐ Name change☐ Initial return☐ Terminated☐ Amended return☐ Application pending

C Name of organization

**Wellmont Hawkins County Memorial
Hospital, Inc.**

Doing Business As

Number and street (or P O box if mail is not delivered to street address)

1905 American Way

Room/suite

City or town, state or country, and ZIP + 4

Kingsport TN 37660

D Employer identification number

62-1816368

E Telephone number

423-230-8200G Gross receipts \$ **22,728,732**

F Name and address of principal officer

**Todd J. Dougan
1905 American Way
Kingsport TN 37660**

H(a) Is this a group return for affiliates? ☐ Yes ☒ NoH(b) Are all affiliates included? ☐ Yes ☐ No

If "No," attach a list (see instructions)

I Tax-exempt status ☒ 501(c)(3) ☐ 501(c) () (insert no) ☐ 4947(a)(1) or ☐ 527J Website: **www.wellmont.org**

H(c) Group exemption number ►

K Form of organization ☒ Corporation ☐ Trust ☐ Association ☐ Other ►L Year of formation **2000**M State of legal domicile **TN**

Part I Summary

Activities & Governance		Revenue		Expenses		Net Assets or Fund Balances	
1 Briefly describe the organization's mission or most significant activities We deliver superior health care with compassion.							
2 Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets							
3 Number of voting members of the governing body (Part VI, line 1a)		3	3				
4 Number of independent voting members of the governing body (Part VI, line 1b)		4	0				
5 Total number of individuals employed in calendar year 2010 (Part V, line 2a)		5	260				
6 Total number of volunteers (estimate if necessary)		6	12				
7a Total unrelated business revenue from Part VIII, column (C), line 12		7a					
b Net unrelated business taxable income from Form 990-T, line 84		7b	0				
		Prior Year	Current Year				
8 Contributions and grants (Part VIII, line 1h)		72,797	130,404				
9 Program service revenue (Part VIII, line 2g)		21,052,188	22,422,386				
10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)		-21,259	972				
11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10d, and 1e)		150,057	159,859				
12 Total revenue - add lines 8 through 11 (must equal Part VIII, column (A), line 12)		21,253,783	22,713,621				
13 Grants and similar amounts paid (Part IX, column (A), lines 1-3)		27,892	26,055				
14 Benefits paid to or for members (Part IX, column (A), line 4)							
15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5-10)		9,029,299	8,922,498				
16a Professional fundraising fees (Part IX, column (A), line 11e)							
b Total fundraising expenses (Part IX, column (D), line 25) ►							
17 Other expenses (Part IX, column (A), lines 11a-11d, 11f-24f)		10,567,524	13,260,802				
18 Total expenses Add lines 13-17 (must equal Part IX, column (A), line 25)		19,624,715	22,209,355				
19 Revenue less expenses Subtract line 18 from line 12		1,629,068	504,266				
20 Total assets (Part X, line 16)		Beginning of Current Year	End of Year				
21 Total liabilities (Part X, line 26)		8,533,957	7,940,016				
22 Net assets or fund balances Subtract line 21 from line 20		1,571,680	1,366,754				
		6,962,277	6,573,262				

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge

Sign Here

Signature of officer

Todd J. Dougan

Date

4/28/2012

Type or print name and title

Sr. VP of Finance

Paid

Preparer Use Only

Print/Type preparer's name

Preparer's signature

Date

04/26/12Check ☐ if self-employed

PTIN

Firm's name ►

Firm's EIN ►

Firm's address ►

Phone no

May the IRS discuss this return with the preparer shown above? (see instructions)

☐ Yes ☐ No

For Paperwork Reduction Act Notice, see the separate instructions. See Statement 1

DAA

Form 990 (2010)

15

9-17

Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III

☒ **X**

1 Briefly describe the organization's mission

We deliver superior health care with compassion.

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ?

☐ Yes ☒ **X** No

If "Yes," describe these new services on Schedule O

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services?

☐ Yes ☒ **X** No

If "Yes," describe these changes on Schedule O

4 Describe the exempt purpose achievements for each of the organization's three largest program services by expenses. Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a (Code) (Expenses \$ **17,438,316** including grants of \$ **26,055**) (Revenue \$ **22,422,386**)

Wellmont Health System prepares a consolidated community benefit report which includes the activities of all its operations and affiliates. In contrast, an Internal Revenue Service (IRS) Form 990 is filed for each tax exempt corporation (7 separate Form 990s), and there is no such IRS form for the taxable corporations. In addition, the IRS instructions to Form 990 have specific definitions, methods and worksheets to calculate the community benefits to be included on the Form 990. As a result, there are significant differences between the community benefits reported in the consolidated community benefit report and the various Form 990s. For example, there are significant losses incurred in the taxable corporations that cannot be reflected in the various Form 990s, the largest of which are

4b (Code) (Expenses \$ including grants of \$) (Revenue \$)

4c (Code) (Expenses \$ including grants of \$) (Revenue \$)

4d Other program services (Describe in Schedule O)

(Expenses \$ including grants of \$) (Revenue \$)

4e Total program service expenses **17,438,316**

Part IV Checklist of Required Schedules

	Yes	No
1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? If "Yes," complete Schedule A	X	
2 Is the organization required to complete Schedule B, Schedule of Contributors? (see instructions)	X	
3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "Yes," complete Schedule C, Part I		X
4 Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If "Yes," complete Schedule C, Part II		X
5 Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If "Yes," complete Schedule C, Part III		X
6 Did the organization maintain any donor advised funds or any similar funds or accounts where donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If "Yes," complete Schedule D, Part I		X
7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? If "Yes," complete Schedule D, Part II		X
8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III		X
9 Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? If "Yes," complete Schedule D, Part IV		X
10 Did the organization, directly or through a related organization, hold assets in term, permanent, or quasi-endowments? If "Yes," complete Schedule D, Part V		X
11 If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable		
a Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI	X	
b Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VII		X
c Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VIII		X
d Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part IX		X
e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X	X	
f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? If "Yes," complete Schedule D, Part X	X	
12a Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI, XII, and XIII		X
b Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional	X	
13 Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E		X
14a Did the organization maintain an office, employees, or agents outside of the United States?		X
b Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, and program service activities outside the United States? If "Yes," complete Schedule F, Parts I and IV		X
15 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the United States? If "Yes," complete Schedule F, Parts II and IV		X
16 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the United States? If "Yes," complete Schedule F, Parts III and IV		X
17 Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? If "Yes," complete Schedule G, Part I (see instructions)		X
18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? If "Yes," complete Schedule G, Part II		X
19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III		X
20a Did the organization operate one or more hospitals? If "Yes," complete Schedule H	X	
b If "Yes" to line 20a, did the organization attach its audited financial statements to this return? Note. Some Form 990 filers that operate one or more hospitals must attach audited financial statements (see instructions)	X	

Part IV Checklist of Required Schedules (continued)

	Yes	No
21 Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? If "Yes," complete Schedule I, Parts I and II	21 <input checked="" type="checkbox"/>	
22 Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? If "Yes," complete Schedule I, Parts I and III	22	<input checked="" type="checkbox"/>
23 Did the organization answer "Yes" to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? If "Yes," complete Schedule J	23 <input checked="" type="checkbox"/>	
24a Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25	24a	<input checked="" type="checkbox"/>
b Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b	
c Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c	
d Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d	
25a Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? If "Yes," complete Schedule L, Part I	25a	<input checked="" type="checkbox"/>
b Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? If "Yes," complete Schedule L, Part I	25b	<input checked="" type="checkbox"/>
26 Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? If "Yes," complete Schedule L, Part II	26	<input checked="" type="checkbox"/>
27 Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? If "Yes," complete Schedule L, Part III	27	<input checked="" type="checkbox"/>
28 Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)		
a A current or former officer, director, trustee, or key employee? If "Yes," complete Schedule L, Part IV	28a	<input checked="" type="checkbox"/>
b A family member of a current or former officer, director, trustee, or key employee? If "Yes," complete Schedule L, Part IV	28b	<input checked="" type="checkbox"/>
c An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? If "Yes," complete Schedule L, Part IV	28c	<input checked="" type="checkbox"/>
29 Did the organization receive more than \$25,000 in non-cash contributions? If "Yes," complete Schedule M	29	<input checked="" type="checkbox"/>
30 Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? If "Yes," complete Schedule M	30	<input checked="" type="checkbox"/>
31 Did the organization liquidate, terminate, or dissolve and cease operations? If "Yes," complete Schedule N, Part I	31	<input checked="" type="checkbox"/>
32 Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? If "Yes," complete Schedule N, Part II	32	<input checked="" type="checkbox"/>
33 Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? If "Yes," complete Schedule R, Part I	33	<input checked="" type="checkbox"/>
34 Was the organization related to any tax-exempt or taxable entity? If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1	34 <input checked="" type="checkbox"/>	
35 Is any related organization a controlled entity within the meaning of section 512(b)(13)?	35	<input checked="" type="checkbox"/>
a Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? If "Yes," complete Schedule R, Part V, line 2		
36 Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? If "Yes," complete Schedule R, Part V, line 2	36	<input checked="" type="checkbox"/>
37 Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? If "Yes," complete Schedule R, Part VI	37	<input checked="" type="checkbox"/>
38 Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? Note. All Form 990 filers are required to complete Schedule O	38 <input checked="" type="checkbox"/>	

☐ Yes ☒ No

Part V Statements Regarding Other IRS Filings and Tax ComplianceCheck if Schedule O contains a response to any question in this Part V ☐

		Yes	No
1a Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	1a 34		
1b Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	1b 0		
c Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	X	
2a Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return.	2a 260		
b If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	2b	X	
3a Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a		X
b If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O.	3b		
4a At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?	4a		X
b If "Yes," enter the name of the foreign country: See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.			
5a Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	5a		X
b Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b		X
c If "Yes" to line 5a or 5b, did the organization file Form 8886-T?	5c		
6a Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible?	6a		X
b If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b		
7 Organizations that may receive deductible contributions under section 170(c).			
a Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?			X
b If "Yes," did the organization notify the donor of the value of the goods or services provided?			
c Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?			X
d If "Yes," indicate the number of Forms 8282 filed during the year.	7d		
e Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e		X
f Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f		X
g If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g		
h If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h		
8 Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8		
9 Sponsoring organizations maintaining donor advised funds.			
a Did the organization make any taxable distributions under section 4966?	9a		
b Did the organization make a distribution to a donor, donor advisor, or related person?	9b		
10 Section 501(c)(7) organizations. Enter			
a Initiation fees and capital contributions included on Part VIII, line 12.	10a		
b Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.	10b		
11 Section 501(c)(12) organizations. Enter			
a Gross income from members or shareholders.	11a		
b Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them.)	11b		
12a Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?	12a		
b If "Yes," enter the amount of tax-exempt interest received or accrued during the year.	12b		
13 Section 501(c)(29) qualified nonprofit health insurance issuers.			
a Is the organization licensed to issue qualified health plans in more than one state? Note. See the instructions for additional information the organization must report on Schedule O.	13a		
b Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.	13b		
c Enter the amount of reserves on hand.	13c		
14a Did the organization receive any payments for indoor tanning services during the tax year?	14a		X
b If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.	14b		

Part VI Governance, Management, and Disclosure For each "Yes" response to lines 2 through 7b below, and for a "No" response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

Check if Schedule O contains a response to any question in this Part VI ☒

Section A. Governing Body and Management

	Yes	No
1a Enter the number of voting members of the governing body at the end of the tax year	3	
1b Enter the number of voting members included in line 1a, above, who are independent	0	
2 Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?		X
3 Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?		X
4 Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?		X
5 Did the organization become aware during the year of a significant diversion of the organization's assets?		X
6 Does the organization have members or stockholders?	X	
7a Does the organization have members, stockholders, or other persons who may elect one or more members of the governing body?	X	
7b Are any decisions of the governing body subject to approval by members, stockholders, or other persons?	X	
8 Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
a The governing body?	X	
b Each committee with authority to act on behalf of the governing body?	X	
9 Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O		X

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

	Yes	No
10a Does the organization have local chapters, branches, or affiliates?		X
b If "Yes," does the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with those of the organization?		
11a Has the organization provided a copy of this Form 990 to all members of its governing body before filing the form?	X	
b Describe in Schedule O the process, if any, used by the organization to review this Form 990		
12a Does the organization have a written conflict of interest policy? If "No," go to line 13	X	
b Are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	X	
c Does the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this is done	X	
13 Does the organization have a written whistleblower policy?	X	
14 Does the organization have a written document retention and destruction policy?	X	
15 Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?		
a The organization's CEO, Executive Director, or top management official	X	
b Other officers or key employees of the organization	X	
If "Yes" to line 15a or 15b, describe the process in Schedule O (See instructions)		
16a Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?		X
b If "Yes," has the organization adopted a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and taken steps to safeguard the organization's exempt status with respect to such arrangements?		

Section C. Disclosure

17 List the states with which a copy of this Form 990 is required to be filed ► **TN**

18 Section 6104 requires an organization to make its Forms 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you make these available. Check all that apply.
☐ Own website ☐ Another's website ☒ Upon request

19 Describe in Schedule O whether (and if so, how), the organization makes its governing documents, conflict of interest policy, and financial statements available to the public

20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization ► **Todd J. Dougan**
1905 American Way
Kingsport TN 37660

423-230-8512

Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent ContractorsCheck if Schedule O contains a response to any question in this Part VII ☐**Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees****1a** Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation. Enter -0- in columns (D), (E), and (F) if no compensation was paid.

- List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."

- List the organization's five **current** highest compensated employees (other than an officer, director, trustee, or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.

- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.

- List all of the organization's **former** directors or trustees that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons.

☐ Check this box if neither the organization nor any related organizations compensated any current officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(1) Elizabeth Ward President/WHS CFO	1.00	X		X				0	576,535	7,876
(2) Michael Bundy (07/01/10 - 04/08/11) Treas/WHS VP of Oper	1.00	X		X				0	303,798	25,746
(3) Gary D. Miller (07/01/10 - 12/20/10) Sec/WHS Sr VP Legal	1.00	X		X				0	293,006	25,218
(4) John Howard (04/01/11 to present) Sec/Pres of WPS &	1.00	X		X				0	0	0
(5) Tracey P. Moffatt (04/09/11-present) Treasurer/WHS COO	1.00	X		X				0	0	0
(6) Fred Pelle President/CEO-WHCMH	38.00			X				0	246,426	22,843
(7) E. Dale Poe CFO-WHCMH	38.00			X				0	158,540	16,303
(8) Gary Collins CRNA	40.00					X		168,834	0	6,252
(9) Brian Turner CRNA	40.00					X		166,269	0	17,021
(10) Marvin Powers CRNA	40.00					X		165,760	0	10,628
(11) Sherri Ives VP of Patient Care	40.00					X		0	129,502	15,768
(12) Georgia Shuck Pharmacist	40.00					X		113,700	0	4,484
(13)										
(14)										
(15)										
(16)										

Part VII Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees (continued)

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(17)										
(18)										
(19)										
(20)										
(21)										
(22)										
(23)										
(24)										
(25)										
(26)										
(27)										
(28)										
1b Sub-total								614,563	1,707,807	152,139
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)								614,563	1,707,807	152,139

2 Total number of individuals (including but not limited to those listed above) who received more than \$100,000 in reportable compensation from the organization **▶ 4**

	Yes	No
3 Did the organization list any former officer, director or trustee, key employee, or highest compensated employee on line 1a? If "Yes," complete Schedule J for such individual		X
4 For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? If "Yes," complete Schedule J for such individual	X	
5 Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? If "Yes," complete Schedule J for such person		X

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization

(A) Name and business address	(B) Description of services	(C) Compensation
UT Surgical Associates Morristown TN 37813	1437 West Morris Blvd Medical Servcs	350,000

2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 in compensation from the organization **▶ 1**

Part VIII Statement of Revenue

			(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, gifts, grants and other similar amounts	1a Federated campaigns	1a				
	b Membership dues	1b				
	c Fundraising events	1c				
	d Related organizations	1d	89,686			
	e Government grants (contributions)	1e	40,718			
	f All other contributions, gifts, grants, and similar amounts not included above	1f				
	g Noncash contributions included in lines 1a-1f	\$				
	h Total. Add lines 1a-1f		130,404			
Program Service Revenue	2a Patient Care Revenue - Net	Busn. Code 621990	22,394,524	22,394,524		
	b Physical Therapy Revenue	624100	27,480	27,480		
	c Medical Records Fees	621990	382	382		
	d					
	e					
	f All other program service revenue					
	g Total. Add lines 2a-2f		22,422,386			
	Other Revenue	3 Investment income (including dividends, interest, and other similar amounts)		89		
4 Income from investment of tax-exempt bond proceeds						
5 Royalties						
6a Gross Rents		(i) Real 41,368				
b Less rental exps		9,402				
c Rental inc or (loss)		31,966				
d Net rental income or (loss)			31,966			31,966
7a Gross amount from sales of assets other than inventory		(i) Securities (ii) Other 6,592				
b Less cost or other basis & sales exps		5,709				
c Gain or (loss)		883				
d Net gain or (loss)			883			883
8a Gross income from fundraising events (not including \$ of contributions reported on line 1c) See Part IV, line 18		a				
b Less direct expenses		b				
c Net income or (loss) from fundraising events						
9a Gross income from gaming activities See Part IV, line 19		a				
b Less direct expenses	b					
c Net income or (loss) from gaming activities						
10a Gross sales of inventory, less returns and allowances	a					
b Less cost of goods sold	b					
c Net income or (loss) from sales of inventory						
Miscellaneous Revenue		Busn. Code				
11a Cafeteria/ Vending Revenue	722210	79,041			79,041	
b Miscellaneous Revenue	900099	48,852			48,852	
c						
d All other revenue						
e Total. Add lines 11a-11d		127,893				
12 Total revenue. See instructions		22,713,621	22,422,386	0	160,831	

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns
All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D)

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1 Grants and other assistance to governments and organizations in the U.S. See Part IV, line 21	26,055	26,055		
2 Grants and other assistance to individuals in the U.S. See Part IV, line 22				
3 Grants and other assistance to governments, organizations, and individuals outside the U.S. See Part IV, lines 15 and 16				
4 Benefits paid to or for members				
5 Compensation of current officers, directors, trustees, and key employees	427,908		427,908	
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7 Other salaries and wages	6,726,365	6,554,724	171,641	
8 Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	170,072	161,820	8,252	
9 Other employee benefits	1,060,079	1,040,026	20,053	
10 Payroll taxes	538,074	507,846	30,228	
11 Fees for services (non-employees)				
a Management	5,571	5,571		
b Legal	1,200		1,200	
c Accounting	1,622		1,622	
d Lobbying				
e Professional fundraising services See Part IV, line 17				
f Investment management fees				
g Other	7,104,916	3,282,155	3,822,761	
12 Advertising and promotion	33,815		33,815	
13 Office expenses	2,421,312	2,321,663	99,649	
14 Information technology				
15 Royalties				
16 Occupancy	740,204	740,204		
17 Travel	28,060	16,504	11,556	
18 Payments of travel or entertainment expenses for any federal, state, or local public officials				
19 Conferences, conventions, and meetings	3,000	3,000		
20 Interest	173,505	173,505		
21 Payments to affiliates				
22 Depreciation, depletion, and amortization	689,073	654,619	34,454	
23 Insurance	109,660	109,660		
24 Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24f. If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O.)				
a Provision for Bad Debts	1,810,620	1,810,620		
b Miscellaneous Other Exp	138,244	30,344	107,900	
c				
d				
e				
f All other expenses				
25 Total functional expenses. Add lines 1 through 24f	22,209,355	17,438,316	4,771,039	0
26 Joint costs. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720). Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X Balance Sheet

		(A) Beginning of year		(B) End of year
Assets	1 Cash—non-interest bearing	33,790	1	207,928
	2 Savings and temporary cash investments		2	
	3 Pledges and grants receivable, net		3	
	4 Accounts receivable, net	3,232,959	4	2,420,327
	5 Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L		5	
	6 Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions)		6	
	7 Notes and loans receivable, net		7	
	8 Inventories for sale or use	392,796	8	356,567
	9 Prepaid expenses and deferred charges	52,921	9	55,085
	10a Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a 13,474,201		
	b Less accumulated depreciation	10b 8,574,092	4,821,491	10c 4,900,109
	11 Investments—publicly traded securities		11	
	12 Investments—other securities See Part IV, line 11		12	
	13 Investments—program-related See Part IV, line 11		13	
	14 Intangible assets		14	
15 Other assets See Part IV, line 11		15		
16 Total assets. Add lines 1 through 15 (must equal line 34)	8,533,957	16	7,940,016	
Liabilities	17 Accounts payable and accrued expenses	1,571,680	17	1,348,806
	18 Grants payable		18	
	19 Deferred revenue		19	
	20 Tax-exempt bond liabilities		20	
	21 Escrow or custodial account liability Complete Part IV of Schedule D		21	
	22 Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons Complete Part II of Schedule L		22	
	23 Secured mortgages and notes payable to unrelated third parties		23	
	24 Unsecured notes and loans payable to unrelated third parties		24	
	25 Other liabilities Complete Part X of Schedule D		25	17,948
	26 Total liabilities. Add lines 17 through 25	1,571,680	26	1,366,754
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.			
	27 Unrestricted net assets	6,962,277	27	6,573,262
	28 Temporarily restricted net assets		28	
	29 Permanently restricted net assets		29	
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.			
	30 Capital stock or trust principal, or current funds		30	
	31 Paid-in or capital surplus, or land, building, or equipment fund		31	
	32 Retained earnings, endowment, accumulated income, or other funds		32	
	33 Total net assets or fund balances	6,962,277	33	6,573,262
	34 Total liabilities and net assets/fund balances	8,533,957	34	7,940,016

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI

☒

1	Total revenue (must equal Part VIII, column (A), line 12)	1	22,713,621
2	Total expenses (must equal Part IX, column (A), line 25)	2	22,209,355
3	Revenue less expenses Subtract line 2 from line 1	3	504,266
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	6,962,277
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-893,281
6	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	6,573,262

Part XII Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII

☒

- 1 Accounting method used to prepare the Form 990 ☐ Cash ☒ Accrual ☐ Other _____
If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O
- 2a Were the organization's financial statements compiled or reviewed by an independent accountant?
- b Were the organization's financial statements audited by an independent accountant?
- c If "Yes" to line 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant?
If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O
- d If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both
☐ Separate basis ☒ Consolidated basis ☐ Both consolidated and separate basis
- 3a As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?
- b If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits

	Yes	No
2a		<input checked="" type="checkbox"/>
2b	<input checked="" type="checkbox"/>	
2c	<input checked="" type="checkbox"/>	
3a	<input checked="" type="checkbox"/>	
3b	<input checked="" type="checkbox"/>	

Form **990** (2010)

SCHEDULE A
(Form 990 or 990-EZ)Department of the Treasury
Internal Revenue Service**Public Charity Status and Public Support**

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2010**Open to Public
Inspection**Name of the organization **Wellmont Hawkins County Memorial
Hospital, Inc.**Employer identification number
62-1816368**Part I Reason for Public Charity Status** (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box.)

- 1 ☐ A church, convention of churches, or association of churches described in section 170(b)(1)(A)(i).
- 2 ☐ A school described in section 170(b)(1)(A)(ii). (Attach Schedule E.)
- 3 ☒ A hospital or a cooperative hospital service organization described in section 170(b)(1)(A)(iii).
- 4 ☐ A medical research organization operated in conjunction with a hospital described in section 170(b)(1)(A)(iii). Enter the hospital's name, city, and state
- 5 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit described in section 170(b)(1)(A)(iv). (Complete Part II.)
- 6 ☐ A federal, state, or local government or governmental unit described in section 170(b)(1)(A)(v).
- 7 ☐ An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in section 170(b)(1)(A)(vi). (Complete Part II.)
- 8 ☐ A community trust described in section 170(b)(1)(A)(vi). (Complete Part II.)
- 9 ☐ An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See section 509(a)(2). (Complete Part III.)
- 10 ☐ An organization organized and operated exclusively to test for public safety. See section 509(a)(4).
- 11 ☐ An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2). See section 509(a)(3). Check the box that describes the type of supporting organization and complete lines 11e through 11h
- a ☐ Type I b ☐ Type II c ☐ Type III—Functionally integrated d ☐ Type III—Other
- e ☐ By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2).
- f If the organization received a written determination from the IRS that it is a Type I, Type II, or Type III supporting organization, check this box ☐
- g Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

- (i) A person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the supported organization?
- (ii) A family member of a person described in (i) above?
- (iii) A 35% controlled entity of a person described in (i) or (ii) above?

	Yes	No
11g(i)		
11g(ii)		
11g(iii)		

h Provide the following information about the supported organization(s)

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1–9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U.S.?		(vii) Amount of support
			Yes	No	Yes	No	Yes	No	
(A)									
(B)									
(C)									
(D)									
(E)									
Total									

For Paperwork Reduction Act Notice, see the Instructions for Form 990 or 990-EZ.

Schedule A (Form 990 or 990-EZ) 2010

Part II Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)
(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support

Calendar year (or fiscal year beginning in) ►	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public support. Subtract line 5 from line 4						

Section B. Total Support

Calendar year (or fiscal year beginning in) ►	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
11 Total support. Add lines 7 through 10						

12 Gross receipts from related activities, etc. (see instructions)**12**

13 **First five years.** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and **stop here** ► ☐

Section C. Computation of Public Support Percentage

14 Public support percentage for 2010 (line 6, column (f) divided by line 11, column (f))	14	%
15 Public support percentage from 2009 Schedule A, Part II, line 14	15	%
16a 33 1/3% support test—2010. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ► <input type="checkbox"/>		
b 33 1/3% support test—2009. If the organization did not check a box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ► <input type="checkbox"/>		
17a 10%-facts-and-circumstances test—2010. If the organization did not check a box on line 13, 16a, or 16b, and line 14 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test. The organization qualifies as a publicly supported organization ► <input type="checkbox"/>		
b 10%-facts-and-circumstances test—2009. If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test. The organization qualifies as a publicly supported organization ► <input type="checkbox"/>		
18 Private foundation. If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions ► <input type="checkbox"/>		

Part III Support Schedule for Organizations Described in Section 509(a)(2)

(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II.
If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support

Calendar year (or fiscal year beginning in) ►	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public support (Subtract line 7c from line 6)						

Section B. Total Support

Calendar year (or fiscal year beginning in) ►	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
13 Total support. (Add lines 9, 10c, 11, and 12)						

14 **First five years.** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and **stop here** ☐

Section C. Computation of Public Support Percentage

15 Public support percentage for 2010 (line 8, column (f) divided by line 13, column (f))	15	%
16 Public support percentage from 2009 Schedule A, Part III, line 15	16	%

Section D. Computation of Investment Income Percentage

17 Investment income percentage for 2010 (line 10c, column (f) divided by line 13, column (f))	17	%
18 Investment income percentage from 2009 Schedule A, Part III, line 17	18	%

19a **33 1/3% support tests—2010.** If the organization did not check the box on line 14, and line 15 is more than 33 1/3%, and line 17 is not more than 33 1/3%, check this box and **stop here**. The organization qualifies as a publicly supported organization ☐

b **33 1/3% support tests—2009.** If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3%, and line 18 is not more than 33 1/3%, check this box and **stop here**. The organization qualifies as a publicly supported organization ☐

20 **Private foundation.** If the organization did not check a box on line 14, 19a, or 19b, check this box and see instructions ☐

Part IV **Supplemental Information.** Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

**SCHEDULE D
(Form 990)**Department of the Treasury
Internal Revenue Service**Supplemental Financial Statements**► Complete if the organization answered "Yes," to Form 990,
Part IV, line 6, 7, 8, 9, 10, 11, or 12.

► Attach to Form 990. ► See separate instructions.

OMB No 1545-0047

2010Open to Public
Inspection

Name of the organization

**Wellmont Hawkins County Memorial
Hospital, Inc.**

Employer identification number

62-1816368**Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts.** Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

	(a) Donor advised funds	(b) Funds and other accounts
1 Total number at end of year		
2 Aggregate contributions to (during year)		
3 Aggregate grants from (during year)		
4 Aggregate value at end of year		
5 Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control?		<input type="checkbox"/> Yes <input type="checkbox"/> No
6 Did the organization inform all grantees, donors, and donor advisors in writing that grant funds can be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit?		<input type="checkbox"/> Yes <input type="checkbox"/> No

Part II Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

	Held at the End of the Tax Year
1 Purpose(s) of conservation easements held by the organization (check all that apply)	
<input type="checkbox"/> Preservation of land for public use (e.g., recreation or education)	
<input type="checkbox"/> Protection of natural habitat	
<input type="checkbox"/> Preservation of open space	
<input type="checkbox"/> Preservation of an historically important land area	
<input type="checkbox"/> Preservation of a certified historic structure	
2 Complete lines 2a through 2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year	
a Total number of conservation easements	2a
b Total acreage restricted by conservation easements	2b
c Number of conservation easements on a certified historic structure included in (a)	2c
d Number of conservation easements included in (c) acquired after 8/17/06, and not on a historic structure listed in the National Register	2d
3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax year ►	
4 Number of states where property subject to conservation easement is located ►	
5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds?	<input type="checkbox"/> Yes <input type="checkbox"/> No
6 Staff and volunteer hours devoted to monitoring, inspecting, and enforcing conservation easements during the year ►	
7 Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ► \$	
8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and section 170(h)(4)(B)(ii)?	<input type="checkbox"/> Yes <input type="checkbox"/> No
9 In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements	

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a If the organization elected, as permitted under SFAS 116 (ASC 958), not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items	
b If the organization elected, as permitted under SFAS 116 (ASC 958), to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items	
(i) Revenues included in Form 990, Part VIII, line 1	► \$
(ii) Assets included in Form 990, Part X	► \$
2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 (ASC 958) relating to these items	
a Revenues included in Form 990, Part VIII, line 1	► \$
b Assets included in Form 990, Part X	► \$

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets (continued)

3 Using the organization's acquisition, accession, and other records, check any of the following that are a significant use of its collection items (check all that apply)

- a ☐ Public exhibition
 b ☐ Scholarly research
 c ☐ Preservation for future generations
 d ☐ Loan or exchange programs
 e ☐ Other

4 Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5 During the year, did the organization solicit or receive donations of art, historical treasures, or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection? ☐ Yes ☐ No

Part IV Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X? ☐ Yes ☐ No

b If "Yes," explain the arrangement in Part XIV and complete the following table

	Amount
1c	
1d	
1e	
1f	

2a Did the organization include an amount on Form 990, Part X, line 21? ☐ Yes ☐ No

b If "Yes," explain the arrangement in Part XIV

Part V Endowment Funds. Complete if organization answered "Yes" to Form 990, Part IV, line 10.

	(a) Current year	(b) Prior year	(c) Two years back	(d) Three years back	(e) Four years back
1a Beginning of year balance					
b Contributions					
c Net investment earnings, gains, and losses					
d Grants or scholarships					
e Other expenditures for facilities and programs					
f Administrative expenses					
g End of year balance					

2 Provide the estimated percentage of the year end balance held as

- a Board designated or quasi-endowment ☐ %
 b Permanent endowment ☐ %
 c Term endowment ☐ %

3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by

- (i) unrelated organizations
 (ii) related organizations

	Yes	No
3a(i)		
3a(ii)		
3b		

b If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?

4 Describe in Part XIV the intended uses of the organization's endowment funds

Part VI Land, Buildings, and Equipment. See Form 990, Part X, line 10.

Description of investment	(a) Cost or other basis (investment)	(b) Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		30,500		30,500
b Buildings		7,670,653	4,019,480	3,651,173
c Leasehold improvements				
d Equipment		5,372,270	4,282,900	1,089,370
e Other		400,778	271,712	129,066
Total. Add lines 1a through 1e (Column (d) must equal Form 990, Part X, column (B), line 10(c))				4,900,109

Part VII Investments—Other Securities. See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives		
(2) Closely-held equity interests		
(3) Other		
(A)		
(B)		
(C)		
(D)		
(E)		
(F)		
(G)		
(H)		
(I)		
Total. (Column (b) must equal Form 990, Part X, col (B) line 12.)		

Part VIII Investments—Program Related. See Form 990, Part X, line 13.

(a) Description of investment type	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1)		
(2)		
(3)		
(4)		
(5)		
(6)		
(7)		
(8)		
(9)		
(10)		
Total. (Column (b) must equal Form 990, Part X, col (B) line 13.)		

Part IX Other Assets. See Form 990, Part X, line 15.

(a) Description	(b) Book value
(1)	
(2)	
(3)	
(4)	
(5)	
(6)	
(7)	
(8)	
(9)	
(10)	
Total. (Column (b) must equal Form 990, Part X, col (B) line 15.)	

Part X Other Liabilities. See Form 990, Part X, line 25.

1. (a) Description of liability	(b) Amount
(1) Federal income taxes	
(2) Liability Insurance	17,948
(3)	
(4)	
(5)	
(6)	
(7)	
(8)	
(9)	
(10)	
(11)	
Total. (Column (b) must equal Form 990, Part X, col (B) line 25.)	17,948

2. FIN 48 (ASC 740) Footnote In Part XIV, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC 740)

Part XI Reconciliation of Change in Net Assets from Form 990 to Audited Financial Statements

1	Total revenue (Form 990, Part VIII, column (A), line 12)	1	
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	
3	Excess or (deficit) for the year Subtract line 2 from line 1	3	
4	Net unrealized gains (losses) on investments	4	
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV)	8	
9	Total adjustments (net) Add lines 4 through 8	9	
10	Excess or (deficit) for the year per audited financial statements Combine lines 3 and 9	10	

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

1	Total revenue, gains, and other support per audited financial statements	1	
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
a	Net unrealized gains on investments	2a	
b	Donated services and use of facilities	2b	
c	Recoveries of prior year grants	2c	
d	Other (Describe in Part XIV)	2d	
e	Add lines 2a through 2d	2e	
3	Subtract line 2e from line 1	3	
4	Amounts included on Form 990, Part VIII, line 12, but not on line 1:		
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a	
b	Other (Describe in Part XIV)	4b	
c	Add lines 4a and 4b	4c	
5	Total revenue Add lines 3 and 4c. (This must equal Form 990, Part I, line 12.)	5	

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

1	Total expenses and losses per audited financial statements	1	
2	Amounts included on line 1 but not on Form 990, Part IX, line 25		
a	Donated services and use of facilities	2a	
b	Prior year adjustments	2b	
c	Other losses	2c	
d	Other (Describe in Part XIV)	2d	
e	Add lines 2a through 2d	2e	
3	Subtract line 2e from line 1	3	
4	Amounts included on Form 990, Part IX, line 25, but not on line 1:		
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a	
b	Other (Describe in Part XIV)	4b	
c	Add lines 4a and 4b	4c	
5	Total expenses Add lines 3 and 4c. (This must equal Form 990, Part I, line 18.)	5	

Part XIV Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, line 2, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information.

Part X - Liability Under FIN 48 Footnote

The Wellmont Health System 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 Health System are subject to state and federal income taxes which

Part XIV Supplemental Information (continued)

are accounted for in accordance with ASC 740, Income Taxes; however, such amounts are not material.

**SCHEDULE H
(Form 990)**Department of the Treasury
Internal Revenue Service**Hospitals**

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 20.

▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2010Open to Public
InspectionName of the organization **Wellmont Hawkins County Memorial
Hospital, Inc.**Employer identification number
62-1816368**Part I Financial Assistance and Certain Other Community Benefits at Cost**

- 1a** Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a
- b** If "Yes," is it a written policy?
- 2** If the organization had multiple hospital facilities, indicate which of the following best describes application of the financial assistance policy to its various hospital facilities during the tax year
- ☒ Applied uniformly to all hospital facilities ☐ Applied uniformly to most hospital facilities
- ☐ Generally tailored to individual hospital facilities
- 3** Answer the following based on the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year
- a** Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing free care to low income individuals? If "Yes," indicate which of the following was the FPG family income limit for eligibility for free care
- ☒ 100% ☐ 150% ☐ 200% ☐ Other _____ %
- b** Did the organization use FPG to determine eligibility for providing discounted care to low income individuals? If "Yes," indicate which of the following was the family income limit for eligibility for discounted care
- ☐ 200% ☐ 250% ☐ 300% ☐ 350% ☐ 400% ☒ Other 150 %
- c** If the organization does not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care. Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care
- 4** Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"?
- 5a** Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?
- b** If "Yes," did the organization's financial assistance expenses exceed the budgeted amount?
- c** If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care?
- 6a** Did the organization prepare a community benefit report during the tax year?
- b** If "Yes," does the organization make it available to the public?

	Yes	No
1a	X	
1b	X	
3a	X	
3b	X	
4	X	
5a	X	
5b		X
5c		
6a	X	
6b	X	

Complete the following table using the worksheets provided in the Schedule H instructions. Do not submit these worksheets with the Schedule H

7 Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheets 1 and 2)			766,067		766,067	3.45
b Unreimbursed Medicaid (from Worksheet 3, column a)			4,675,752	3,233,740	1,442,012	6.49
c Unreimbursed costs—other means-tested government programs (from Worksheet 3, column b)						
d Total Financial Assistance and Means-Tested Government Programs			5,441,819	3,233,740	2,208,079	9.94
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)	10	1,328	57,768		57,768	0.26
f Health professions education (from Worksheet 5)	2	18	12,949		12,949	0.06
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7)						
i Cash and in-kind contributions to community groups (from Worksheet 8)	6		26,055		26,055	0.12
j Total Other Benefits	18	1,346	96,772		96,772	0.44
k Total Add lines 7d and 7j	18	1,346	5,538,591	3,233,740	2,304,851	10.38

Part II Community Building Activities Complete this table if the organization conducted any community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1 Physical improvements and housing						
2 Economic development						
3 Community support						
4 Environmental improvements						
5 Leadership development and training for community members						
6 Coalition building						
7 Community health improvement advocacy						
8 Workforce development						
9 Other						
10 Total						

Part III Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

1 Does the organization report bad debt expense in accordance with Healthcare Financial Management Association Statement No. 15?

	Yes	No
1		X

2 Enter the amount of the organization's bad debt expense (at cost)

2 543,653

3 Enter the estimated amount of the organization's bad debt expense (at cost) attributable to patients eligible under the organization's financial assistance policy

3

4 Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit

Section B. Medicare

5 Enter total revenue received from Medicare (including DSH and IME)

5 5,860,948

6 Enter Medicare allowable costs of care relating to payments on line 5

6 5,097,569

7 Subtract line 6 from line 5. This is the surplus or (shortfall)

7 763,379

8 Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used:

☐ Cost accounting system ☐ Cost to charge ratio ☐ Other

Section C. Collection Practices

9a Did the organization have a written debt collection policy during the tax year?

9a X

b If "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI

9b X

Part IV Management Companies and Joint Ventures

(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership %	(e) Physicians' profit % or stock ownership %
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

Part V Facility Information

Section A. Hospital Facilities

(list in order of size, measured by total revenue per facility, from largest to smallest)

How many hospital facilities did the organization operate during the tax year? 1

Name and address

1 Hawkins County Memorial Hospital

**851 Locust Street
Rogersville**

TN 37857

Licensed hospital
General medical & surgical
Children's hospital
Teaching hospital
Critical access hospital
Research facility
ER-24 hours
ER-other

Other (describe)

X

X

Part V Facility Information (continued)**Section B. Facility Policies and Practices**

(Complete a separate Section B for each of the hospital facilities listed in Part V, Section A)

Name of Hospital Facility: Hawkins County Memorial HospitalLine Number of Hospital Facility (from Schedule H, Part V, Section A): 1**Community Health Needs Assessment (Lines 1 through 7 are optional for 2010)**

1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment (Needs Assessment)? If "No," skip to line 8

1

If "Yes," indicate what the Needs Assessment describes (check all that apply)

- a ☐ A definition of the community served by the hospital facility
- b ☐ Demographics of the community
- c ☐ Existing health care facilities and resources within the community that are available to respond to the health needs of the community
- d ☐ How data was obtained
- e ☐ The health needs of the community
- f ☐ Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups
- g ☐ The process for identifying and prioritizing community health needs and services to meet the community health needs
- h ☐ The process for consulting with persons representing the community's interests
- i ☐ Information gaps that limit the hospital facility's ability to assess all of the community's health needs
- j ☐ Other (describe in Part VI)

2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20

3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted

3

4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI

4

5 Did the hospital facility make its Needs Assessment widely available to the public?

5

If "Yes," indicate how the Needs Assessment was made widely available (check all that apply)

- a ☐ Hospital facility's website
- b ☐ Available upon request from the hospital facility
- c ☐ Other (describe in Part VI)

6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply)

- a ☐ Adoption of an implementation strategy to address the health needs of the hospital facility's community
- b ☐ Execution of the implementation strategy
- c ☐ Participation in the development of a community-wide community benefit plan
- d ☐ Participation in the execution of a community-wide community benefit plan
- e ☐ Inclusion of a community benefit section in operational plans
- f ☐ Adoption of a budget for provision of services that address the needs identified in the Needs Assessment
- g ☐ Prioritization of health needs in its community
- h ☐ Prioritization of services that the hospital facility will undertake to meet health needs in its community
- i ☐ Other (describe in Part VI)

7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed and the reasons why it has not addressed such needs

7

Financial Assistance Policy

Did the hospital facility have in place during the tax year a written financial assistance policy that

8 Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?

8

X

9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care to low income individuals?

9

X

If "Yes," indicate the FPG family income limit for eligibility for free care 100 %

Part V Facility Information (continued)

10 Used FPG to determine eligibility for providing discounted care to low income individuals?

If "Yes," indicate the FPG family income limit for eligibility for discounted care 150 %

11 Explained the basis for calculating amounts charged to patients?

If "Yes," indicate the factors used in determining such amounts (check all that apply)

- a ☒ Income level
 b ☒ Asset level
 c ☒ Medical indigency
 d ☒ Insurance status
 e ☒ Uninsured discount
 f ☒ Medicaid/Medicare
 g ☒ State regulation
 h ☐ Other (describe in Part VI)

12 Explained the method for applying for financial assistance?

13 Included measures to publicize the policy within the community served by the hospital facility?

If "Yes," indicate how the hospital facility publicized the policy (check all that apply)

- a ☒ The policy was posted on the hospital facility's website
 b ☐ The policy was attached to billing invoices
 c ☒ The policy was posted in the hospital facility's emergency rooms or waiting rooms
 d ☒ The policy was posted in the hospital facility's admissions offices
 e ☐ The policy was provided, in writing, to patients on admission to the hospital facility
 f ☒ The policy was available on request
 g ☐ Other (describe in Part VI)

Billing and Collections

14 Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy that explained actions the hospital facility may take upon non-payment?

15 Check all of the following collection actions against a patient that were permitted under the hospital facility's policies at any time during the tax year

- a ☒ Reporting to credit agency
 b ☒ Lawsuits
 c ☒ Liens on residences
 d ☒ Body attachments
 e ☒ Other actions (describe in Part VI)

16 Did the hospital facility engage in or authorize a third party to perform any of the following collection actions during the tax year?

If "Yes," check all collection actions in which the hospital facility or a third party engaged (check all that apply)

- a ☒ Reporting to credit agency
 b ☒ Lawsuits
 c ☒ Liens on residences
 d ☒ Body attachments
 e ☒ Other actions (describe in Part VI)

17 Indicate which actions the hospital facility took before initiating any of the collection actions checked in line 16 (check all that apply)

- a ☒ Notified patients of the financial assistance policy on admission
 b ☒ Notified patients of the financial assistance policy prior to discharge
 c ☐ Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills
 d ☒ Documented its determination of whether a patient who applied for financial assistance under the financial assistance policy qualified for financial assistance
 e ☐ Other (describe in Part VI)

	Yes	No
10	<input checked="" type="checkbox"/>	
11	<input checked="" type="checkbox"/>	
12	<input checked="" type="checkbox"/>	
13	<input checked="" type="checkbox"/>	
14	<input checked="" type="checkbox"/>	
15		
16	<input checked="" type="checkbox"/>	
17		

Part V Facility Information (continued)**Policy Relating to Emergency Medical Care**

- 18 Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy?

	Yes	No
18	X	

If "No," indicate the reasons why (check all that apply)

- a ☐ The hospital facility did not provide care for any emergency medical conditions
- b ☐ The hospital facility did not have a policy relating to emergency medical care
- c ☐ The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)
- d ☐ Other (describe in Part VI)

Charges for Medical Care

- 19 Indicate how the hospital facility determined the amounts billed to individuals who did not have insurance covering emergency or other medically necessary care (check all that apply)

- a ☐ The hospital facility used the lowest negotiated commercial insurance rate for those services at the hospital facility
- b ☐ The hospital facility used the average of the three lowest negotiated commercial insurance rates for those services at the hospital facility
- c ☐ The hospital facility used the Medicare rate for those services
- d ☒ Other (describe in Part VI)

- 20 Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care?

20		X
----	--	---

If "Yes," explain in Part VI

- 21 Did the hospital facility charge any of its patients an amount equal to the gross charge for any service provided to that patient?

21		X
----	--	---

If "Yes," explain in Part VI

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

How many non-hospital facilities did the organization operate during the tax year? 0

[illegible]

Part VI Supplemental Information

Complete this part to provide the following information

- 1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3 **Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4 **Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5 **Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e.g., open medical staff, community board, use of surplus funds, etc.)
- 6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Part I, Line 7, Column (f) - Exclusions from Percent of Total Expense

Bad debt expense of \$1,810,620 was included on Form 990, Part IX, Line 25, Column A, but was subtracted for purposes of calculating the percentages in this column.

Part I, Line 7 - Financial Assistance and Certain Other Community Benefits at Cost

For Worksheet 2, the ratio of patient care cost-to-charges was used to determine the costs for amounts in Lines 7a and 7b, Column C. The costs included in the cost-to-charge ratio included the costs from all patient segments. Actual costs from the general ledger were used for amounts in Lines 7f and 7i, Column C.

Part II - Community Building Activities

Community Building Activities is not applicable for fiscal year 2011.

Part III, Line 4 - Bad Debt Expense Explanation

The cost reported on Line 2 is calculated as the bad debt expense from the

Part VI Supplemental Information

Complete this part to provide the following information

- 1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B.
- 3 **Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4 **Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5 **Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc)
- 6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

general ledger times the ratio of cost to charges as calculated on

Worksheet 2. There are no amounts reported on Line 3. Discounts on

patient accounts are not included in bad debt expense. Payments on patient

accounts that have previously been written off as bad debt are used to

reduce bad debt expense. A third party vendor is used to help determine

the amount that reasonably could be attributable to patients who likely

would qualify for financial assistance under the charity care policy.

Text of note to financial statements that describes bad debt expense:

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

Part VI Supplemental Information

Complete this part to provide the following information

- 1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3 **Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4 **Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5 **Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e.g., open medical staff, community board, use of surplus funds, etc.)
- 6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

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.

Hawkins County Memorial Hospital, Line Number 1 - Part V, Line 3

Wellmont Hawkins County Memorial Hospital, Inc. examines the healthcare needs of the communities it serves by conducting physician needs

assessments for its hospitals. As part of this effort, Wellmont reviews its

Part VI Supplemental Information

Complete this part to provide the following information

- 1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3 **Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4 **Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5 **Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc)
- 6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

service area and demographics, examines physician demographics and conducts focus groups. It makes a determination of physician need while calculating its physician surpluses and deficits and highlighting its recruitment priorities and plans. Wellmont annually determines its primary, secondary and tertiary markets through the use of county-by-county analysis to identify the following customer groups: patients and potential patients, community/ employer groups and local physicians. The health system also relies on the expertise of consultants to periodically review all facets of operations and make recommendations for changes.

Hawkins County Memorial Hospital, Line Number 1 - Part V, Line 15e

Other actions include garnishment of wages.

Hawkins County Memorial Hospital, Line Number 1 - Part V, Line 16e

Other actions include garnishment of wages.

Hawkins County Memorial Hospital, Line Number 1 - Part V, Line 19d

Wellmont Hawkins County Memorial Hospital, Inc. follows Tennessee statute which is 175% of average cost for its hospitals.

Part VI Supplemental Information

Complete this part to provide the following information.

- 1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3 **Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4 **Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5 **Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e.g., open medical staff, community board, use of surplus funds, etc.)
- 6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Needs Assessment**Line Number 1, Part VI, Line 2**

Wellmont Hawkins County Memorial Hospital, Inc. examines the healthcare needs of the communities it serves by conducting physician needs assessments for its hospitals. As part of this effort, Wellmont reviews its service area and demographics, examines physician demographics and conducts focus groups. It makes a determination of physician need while calculating its physician surpluses and deficits and highlighting its recruitment priorities and plans. Wellmont annually determines its primary, secondary and tertiary markets through the use of county-by-county analysis to identify the following customer groups: patients and potential patients, community/employer groups and local physicians. The health system also relies on the expertise of consultants to periodically review all facets of operations and make recommendations for changes.

Patient Education of Eligibility for Assistance**Line Number 1, Part VI, Line 3**

Part VI Supplemental Information

Complete this part to provide the following information

- 1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
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- 5 **Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc)
- 6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Wellmont Hawkins County Memorial Hospital, Inc. proactively informs patients of the financial assistance policy by posting the policy on its web site as well as posting the policy at points of registration in the hospitals. Wellmont Hawkins County Memorial Hospital, Inc. uses program eligibility specialists who contact the uninsured patient population. These specialists discuss the various governmental assistance programs that are available to patients in order to determine if the patient would qualify for any of these programs. The specialists will work with the patients to complete any necessary applications and will help them through the qualification process.

Community Information

Line Number 1, Part VI, Line 4

Wellmont Hawkins County Memorial Hospital, Inc.'s primary service area is Hawkins and Hancock counties of Tennessee. Wellmont Hawkins County Memorial Hospital, Inc. is the only hospital in Hawkins County and its sister facility, Hancock County Hospital, Inc. is the only hospital in

Part VI Supplemental Information

Complete this part to provide the following information

- 1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
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- 6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Hancock County. The demographics of these counties are as follows:

Hawkins - population 56,833; median household income \$35,392.

Hancock - population 6,819; median household income \$23,125.

Approximately 31.5% of our patients are Medicaid recipients and 11.3% are uninsured, and Hawkins County is designated as a medically underserved area.

Health of Community in Relation to Exempt Purpose

Line Number 1, Part VI, Line 5

The medical staff of Wellmont Hawkins County Memorial Hospital Inc., like all Wellmont Health System hospitals, is open to all qualified physicians, except for some of its hospital based departments, such as anesthesiology, emergency medicine, pathology, and radiology.

Any surplus of revenues and gains in excess of expenses and losses for

Wellmont Hawkins County Memorial Hospital, Inc., like all Wellmont Health

Part VI Supplemental Information

Complete this part to provide the following information

- 1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
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- 6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
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System hospitals, is used to further the Wellmont Health System Mission and Vision, which are "We deliver superior health care with compassion" and "We will deliver the best health care anywhere". This would include improvements in facilities as well as operations for patient care.

Affiliated Health Care Information

Line Number 1, Part VI, Line 6

Wellmont Hawkins County Memorial Hospital is an affiliate of Wellmont Health System. 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

Part VI Supplemental Information

Complete this part to provide the following information

- 1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
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- 6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

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, Wellmont 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

Schedule H (Form 990) 2010

Part VI Supplemental Information

Complete this part to provide the following information

- 1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
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various nonprofit and for-profit corporations and other organizations that
currently provide health care and health care-related services throughout
the service area. In addition to the hospital campuses and ambulatory care
centers described above, Wellmont also operates medical clinics, ambulatory
surgery centers, comprehensive cancer care centers, and imaging facilities.

List of States Where Community Benefit Report is Filed

Tennessee, Virginia

**SCHEDULE I
(Form 990)**

Department of the Treasury
Internal Revenue Service

**Grants and Other Assistance to Organizations,
Governments, and Individuals in the United States**

Complete if the organization answered "Yes" to Form 990, Part IV, line 21 or 22.

▶ Attach to Form 990.

OMB No 1545-0047

2010

**Open to Public
Inspection**

Name of the organization

**Wellmont Hawkins County Memorial
Hospital, Inc.**

Employer identification number

62-1816368

Part I General Information on Grants and Assistance

1 Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance?

2 Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States.

Part II Grants and Other Assistance to Governments and Organizations in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 21, for any recipient that received more than \$5,000. Check this box if no one recipient received more than \$5,000. Part II can be duplicated if additional space is needed

Form 990, Part IV, line 21, for any recipient that received more than \$5,000. Check this box if no one recipient received more than \$5,000. Part II can be duplicated if additional space is needed

☒ Yes ☐ No

1	(a) Name and address of organization or government	(b) EIN	(c) IRC section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
(1)	American Cancer Society 508 Princeton Road, Suite 102 Johnson City TN 37601	64-0329009	501c3	6,000		FMV		Worthy cause
(2)								
(3)								
(4)								
(5)								
(6)								
(7)								
(8)								
(9)								

2 Enter total number of section 501(c)(3) and government organizations

3 Enter total number of other organizations

▶ **1**
▶ **0**

For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Schedule I (Form 990) (2010)

DAA

Part III **Grants and Other Assistance to Individuals in the United States.** Complete if the organization answered "Yes" to Form 990, Part IV, line 22.
Part III can be duplicated if additional space is needed.

	(a) Type of grant or assistance	(b) Number of recipients	(c) Amount of cash grant	(d) Amount of non-cash assistance	(e) Method of valuation (book, FMV, appraisal, other)	(f) Description of non-cash assistance
1						
2						
3						
4						
5						
6						
7						

Part IV **Supplemental Information.** Complete this part to provide the information required in Part I, line 2, and any other additional information.

Part I, Line 2 - Procedures for Monitoring the Use of Grant Funds
Wellmont Hawkins County Memorial Hospital, Inc. makes minimal grants (normally less than \$5,000 per entity) throughout the year. The use of these grant funds is not monitored by Wellmont Hawkins County Memorial Hospital, Inc. as these grants are made in general support of the grant recipient.

SCHEDULE J
(Form 990)Department of the Treasury
Internal Revenue Service**Compensation Information**For certain Officers, Directors, Trustees, Key Employees, and Highest
Compensated Employees► Complete if the organization answered "Yes" to Form 990,
Part IV, line 23.

► Attach to Form 990. ► See separate instructions.

OMB No 1545-0047

2010Open To Public
Inspection

Name of the organization

**Wellmont Hawkins County Memorial
Hospital, Inc.**

Employer identification number

62-1816368**Part I Questions Regarding Compensation****1a** Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a. Complete Part III to provide any relevant information regarding these items.

- | | |
|--|---|
| <input type="checkbox"/> First-class or charter travel | <input type="checkbox"/> Housing allowance or residence for personal use |
| <input type="checkbox"/> Travel for companions | <input type="checkbox"/> Payments for business use of personal residence |
| <input type="checkbox"/> Tax indemnification and gross-up payments | <input checked="" type="checkbox"/> Health or social club dues or initiation fees |
| <input type="checkbox"/> Discretionary spending account | <input type="checkbox"/> Personal services (e.g., maid, chauffeur, chef) |

b If any of the boxes on line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all of the expenses described above? If "No," complete Part III to explain**2** Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?**3** Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director. Check all that apply.

- | | |
|--|--|
| <input type="checkbox"/> Compensation committee | <input type="checkbox"/> Written employment contract |
| <input type="checkbox"/> Independent compensation consultant | <input type="checkbox"/> Compensation survey or study |
| <input type="checkbox"/> Form 990 of other organizations | <input type="checkbox"/> Approval by the board or compensation committee |

4 During the year, did any person listed in Form 990, Part VII, Section A, line 1a, with respect to the filing organization or a related organization:

- a** Receive a severance payment or change-of-control payment from the organization or a related organization?
- b** Participate in, or receive payment from, a supplemental nonqualified retirement plan?
- c** Participate in, or receive payment from, an equity-based compensation arrangement?

If "Yes" to any of lines 4a–c, list the persons and provide the applicable amounts for each item in Part III.

Only section 501(c)(3) and 501(c)(4) organizations must complete lines 5–9.**5** For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of:

- a** The organization?
- b** Any related organization?

If "Yes" to line 5a or 5b, describe in Part III.

6 For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of:

- a** The organization?
- b** Any related organization?

If "Yes" to line 6a or 6b, describe in Part III.

7 For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III.**8** Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regulations section 53.4958-4(a)(3)? If "Yes," describe in Part III.**9** If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53.4958-6(c)?

Yes No

1b X

2 X

4a X

4b X

4c X

5a X

5b X

6a X

6b X

7 X

8 X

9

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use duplicate copies if additional space is needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions, on row (ii). Do not list any individuals that are not listed on Form 990, Part VII.

Note. The sum of columns (B)(i)-(iii) must equal the applicable column (D) or column (E) amounts on Form 990, Part VII, line 1a

	(A) Name	(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
1	Elizabeth Ward	(i) 0	(ii) 0	(iii) 0	0	0	0	0
		(ii) 414,980	(iii) 161,316	(iv) 239	0	7,876	584,411	0
2	Michael Bundy (07/01/10 - 04/08/11)	(i) 0	(ii) 0	(iii) 0	0	0	0	0
		(ii) 252,456	(iii) 51,180	(iv) 162	16,363	9,383	329,544	294,129
3	Gary D. Miller (07/01/10 - 12/20/10)	(i) 0	(ii) 0	(iii) 0	0	0	0	0
		(ii) 240,935	(iii) 51,180	(iv) 891	15,715	9,503	318,224	285,749
4	Fred Pelle	(i) 0	(ii) 0	(iii) 0	0	0	0	0
		(ii) 206,795	(iii) 38,677	(iv) 954	13,331	9,512	269,269	265,763
5	E. Dale Poe	(i) 0	(ii) 0	(iii) 0	0	0	0	0
		(ii) 138,160	(iii) 20,277	(iv) 103	5,843	10,460	174,843	158,711
6	Gary Collins	(i) 0	(ii) 0	(iii) 0	0	0	0	0
		(ii) 166,203	(iii) 1,754	(iv) 877	0	6,252	175,086	167,756
7	Brian Turner	(i) 0	(ii) 0	(iii) 0	0	0	0	0
		(ii) 164,025	(iii) 1,760	(iv) 484	6,561	10,460	183,290	176,580
8	Marvin Powers	(i) 0	(ii) 0	(iii) 0	0	0	0	0
		(ii) 163,434	(iii) 1,754	(iv) 572	4,376	6,252	176,388	173,959
9		(i) 0	(ii) 0	(iii) 0	0	0	0	0
10		(i) 0	(ii) 0	(iii) 0	0	0	0	0
11		(i) 0	(ii) 0	(iii) 0	0	0	0	0
12		(i) 0	(ii) 0	(iii) 0	0	0	0	0
13		(i) 0	(ii) 0	(iii) 0	0	0	0	0
14		(i) 0	(ii) 0	(iii) 0	0	0	0	0
15		(i) 0	(ii) 0	(iii) 0	0	0	0	0
16		(i) 0	(ii) 0	(iii) 0	0	0	0	0

Schedule J (Form 990) 2010

Part III Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

SCHEDULE O
(Form 990 or 990-EZ)Department of the Treasury
Internal Revenue Service**Supplemental Information to Form 990 or 990-EZ**Complete to provide information for responses to specific questions on
Form 990 or 990-EZ or to provide any additional information.

▶ Attach to Form 990 or 990-EZ.

OMB No 1545-0047

2010Open to Public
InspectionName of the organization **Wellmont Hawkins County Memorial
Hospital, Inc.**Employer identification number
62-1816368**Form 990 - Additional Information****Form 990, Part X, Balance Sheet**

Certain balance sheet accounts have been reclassified for better comparison to the current year financial statements.

Form 990, Part III, Line 4a - First Achievement

the costs and revenues associated with the physicians and other providers within these corporations who provide indispensable services to patients of Wellmont Health System. There are also funds and services that are provided that do not meet the specific definitions of the IRS instructions, such as contributions to community organizations that do not meet the definition of "restricted to one or more of the activities described in the table in Part I, line 7" of Schedule H-Hospitals.

Wellmont Hawkins County Memorial Hospital, Inc. is a public trust. This hospital, like the other Wellmont Health System facilities of which it is a member, was born of its community's commitment to superior health care for its citizens.

It is our mission to deliver superior health care with compassion to the people we serve. It is our vision to deliver the best health care anywhere.

Consistent with this mission, we have worked toward improving our community's access to quality, affordable health care, educating our region's caregivers, improving the health status of our communities, and

Name of the organization

Wellmont Hawkins County Memorial

Employer identification number

62-1816368

contributing to the overall quality of life in the areas we serve. Overall, we returned more than \$2,304,851 in benefits to our community in fiscal year 2011, including \$2,208,079 of unreimbursed costs for indigent and Medicaid patients and \$96,772 for other community activities.

Wellmont Hawkins County Memorial Hospital, Inc. is a 50-bed facility in Rogersville, Tennessee. We provide a wide variety of services, including emergency care, physical and occupational therapies, surgery, orthopedic care, intensive care, outpatient specialty clinics, laboratory services, audiology services, cardiovascular services, respiratory therapy, sleep evaluations and treatment, spine rehabilitation services and diagnostic imaging.

In fiscal year 2011, we provided services to 1,603 inpatients; we had 27,494 outpatient encounters; we had 709 inpatient and outpatient surgical cases; and we had 18,789 emergency room visits.

We are mindful of our responsibilities as one of Rogersville's largest companies. Hundreds of families count on us for their livelihoods. Our city relies on us as a driver of economic development. It is our duty as a corporate citizen to support those endeavors and causes that improve the quality of life in our region. And we also recognize it is our responsibility to care for those in need - regardless of their ability to pay.

It is our commitment - indeed, it is our mission - to support the causes and develop the initiatives that will propel our community toward a better,

Name of the organization

Wellmont Hawkins County Memorial

Employer identification number

62-1816368

brighter, healthier and more vibrant future. Regardless of race, religion, ethnicity or ability to pay, Wellmont Hawkins County Memorial Hospital, Inc. treats all patients for medically necessary conditions. Recognizing that some patients cannot afford essential medical services, we provided care for indigent patients, writing off \$2,551,364 of charges and incurring costs of \$766,067.

And as a responsible corporate citizen, we at Wellmont Hawkins County Memorial Hospital, Inc. honor our obligation to support the quality of life in our region. Our direct donations to area not-for-profit organizations totaled \$26,055 and were made to organizations including the American Cancer Society; Boys and Girls Club of Hawkins County; CASA for Kids; March of Dimes; Sequoyah Council of the Boy Scouts of America; Rogersville/Hawkins County Chamber of Commerce; Sneedville/Hancock County Chamber of Commerce; Rogersville City School System; Cherokee High School; Volunteer High School; Hancock County School System; Sneedville Volunteer Fire Department; Kiwanis of Rogersville; Rogersville Arts Council; Rogersville Fourth of July Celebration; Rogersville Heritage Association; Rogersville Main Street; and Rogersville Rotary Club.

We support and encourage our employees to give their time to area not-for-profit organizations, which included the American Heart Association, American Cancer Society, the Rogersville Heritage Association, civic groups like Kiwanis and Rotary, various United Way agencies, and the Rogersville Area Chamber of Commerce and its programs. Many of our employees also serve in community rescue squads.

Name of the organization

Wellmont Hawkins County Memorial

Employer identification number

62-1816368

Wellmont Hawkins County Memorial Hospital, Inc. will not succeed in our mission without continually reinvesting in our most precious resource - our people. To that end, we provided on-the-job training to nursing candidates at a direct cost of \$3,187. This program utilizes nursing staff that have completed a degree but not yet passed board certification. This provides invaluable experience for new nurses, who are supervised by board certified nurses during this time. We also provided educational opportunities to students in other medical disciplines, such as radiology. Other educational programs were provided to our existing staff for continuing medical education at a direct cost of \$9,762.

The Hospital also provides benefit to area high school athletes by subsidizing the sports medicine program at Cherokee High School in Rogersville, Tennessee. Wellmont Hawkins County Memorial Hospital, Inc. pays for fifty percent of the salary and mileage of a staff physician therapist based at the school.

Wellmont Hawkins County Memorial Hospital, Inc. is also Wellmont Health System's leading site for the implementation of its electronic health record. This national mandate creates tremendous efficiencies for caregivers, enhances patient care and ultimately improves patient safety by reducing the potential for errors associated with paper documentation as well as increasing the security and sharing of data among providers. The training and educational cost for staff related to the implementation of the electronic health record in fiscal year 2011 was \$52,841.

Form 990, Part VI, Line 6 - Classes of Members or Stockholders

Name of the organization

Wellmont Hawkins County Memorial

Employer identification number

62-1816368

The business and affairs of Wellmont Hawkins County Memorial Hospital, Inc. (the Corporation) shall be governed exclusively by the Board of Directors. The Corporation's Board of Directors is designated by Wellmont Health System, the sole member of the Corporation.

In addition to such rights of approval and consent as may be reserved to the sole member of the Corporation pursuant to applicable law, transactions of the following matters by the Corporation shall require the prior approval of Wellmont Health System, the sole member of the Corporation:

- (A) Implementation of Corporation's annual budget,
- (B) Incurring any loan or other indebtedness for borrowed money,
- (C) Acquisition of any equipment or personal property for a purchase price in excess of \$50,000 or the acquisition of any real estate, regardless of purchase price,
- (D) The undertaking of certain contractual commitments,
- (E) Entering into any plan of merger or consolidation,
- (F) Acquisition of substantially all of the assets of any other legal entity, and
- (G) Institution of any litigation by or on behalf of Corporation.

Name of the organization

Wellmont Hawkins County Memorial

Employer identification number

62-1816368

Form 990, Part VI, Line 7a - Election of Members and Their Rights

See Form 990, Part VI, Section A, Line 6 for explanation.

Form 990, Part VI, Line 7b - Decisions Subject to Approval of Members

See Form 990, Part VI, Section A, Line 6 for explanation.

Form 990, Part VI, Line 11b - Organization's Process to Review Form 990

Wellmont Hawkins County Memorial Hospital, Inc.'s Form 990 is reviewed by three individuals of Wellmont Health System (the Senior Vice President of Finance, the Corporate Controller, and the Manager of Accounting) and the Board of Directors of Wellmont Hawkins County Memorial Hospital, Inc. Any questions or comments arising from the initial review are addressed to ensure the return is complete and accurate.

Form 990, Part VI, Line 12c - Enforcement of Conflicts Policy

Officers, directors and key employees are required to sign a Conflict of Interest Policy Acknowledgement. Any potential conflicts are discussed with the Senior Vice President, Compliance and Audit Services, as they arise. Wellmont Hawkins County Memorial Hospital, Inc.'s officers, directors and key employees are governed by Wellmont Health System's conflict of interest policy. Wellmont Health System also has a policy on business practices that discusses conflict of interest and informs the workforce to disclose any issues to the Senior Vice President, Compliance and Audit Services, for resolution. Wellmont Health System also uses a hotline that allows anonymous reporting of possible conflict of interest situations for investigation by the Senior Vice President, Compliance and Audit Services.

Name of the organization

Wellmont Hawkins County Memorial

Employer identification number

62-1816368

Form 990, Part VI, Line 15a - Compensation Process for Top Official

The compensation of Elizabeth Ward, the Executive Vice-President and Chief Financial Officer of Wellmont Health System, is reviewed, approved and documented by the Wellmont Health System Personnel Committee and Board of Directors. Elizabeth Ward is also the President of the Board of Directors of Wellmont Hawkins County Memorial Hospital, Inc.

The compensation of Fred Pelle, the President and CEO of Wellmont Hawkins County Memorial Hospital, Inc. is reviewed, approved and documented by the Wellmont Health System Personnel Committee and Board of Directors. Fred Pelle's compensation is paid by Wellmont Health System through intercompany transactions.

In addition, these bodies use comparability data to determine the appropriate compensation. All compensation deliberations and reviews are contemporaneously documented. This process is completed on an annual basis. The last compensation deliberation and review process for Elizabeth Ward was completed March 15, 2011. The Human Resources Committee of the Board of Directors met and reviewed the salary and market compensation data for Fred Pelle on August 26, 2010.

Form 990, Part VI, Line 15b - Compensation Process for Officers

The compensation of Gary D. Miller, the Senior Vice President of Legal Affairs (07/01/10 to 12/20/10) of Wellmont Health System, was reviewed, approved and documented by the Wellmont Health System Personnel Committee and the Board of Directors. Gary D. Miller was also the Secretary of

Name of the organization

Wellmont Hawkins County Memorial

Employer identification number

62-1816368

Wellmont Hawkins County Memorial Hospital, Inc.

The compensation of John Howard, the President and CEO of Wellmont Physician Services, Inc. and General Counsel for Wellmont Health System (04/01/11 to present), is reviewed, approved and documented by the Wellmont Health System Personnel Committee and Board of Governors. John Howard is also the Secretary of Wellmont Hawkins County Memorial Hospital, Inc.

The compensation of Michael Bundy, the Senior Vice President of Operations (07/01/10 to 04/08/11) of Wellmont Health System, was reviewed, approved and documented by the Wellmont Health System Personnel Committee and the Board of Governors. Michael Bundy was also the Treasurer of Wellmont Hawkins County Memorial Hospital, Inc.

The compensation of Tracey P. Moffatt, the Chief Operations Officer (01/10/11 to present) of Wellmont Health System, is reviewed, approved and documented by the Wellmont Health System Personnel Committee and the Board of Directors. Tracey P. Moffatt is also the Treasurer (04/09/11 to present) of Wellmont Hawkins County Memorial Hospital, Inc. Wellmont Health System uses one or more of the methods described to establish the compensation of Tracey P. Moffatt.

In addition, these bodies use comparability data to determine the appropriate compensation. All compensation deliberations and reviews are contemporaneously documented. This process is completed on an annual basis. The Human Resources Committee of the Board of Directors reviewed the salary and market compensation data for Gary D. Miller and Michael Bundy on

Name of the organization

Wellmont Hawkins County Memorial

Employer identification number

62-1816368

August 26, 2010. The Human Resources Committee of the Board of Directors reviewed the salary and market compensation data for John Howard on January 27, 2011, immediately prior to tendering his offer of employment. Wellmont Health System uses one or more of the methods described to establish the compensation of E. Dale Poe.

Form 990, Part VI, Line 19 - Governing Documents Disclosure Explanation
Wellmont Hawkins County Memorial Hospital, Inc.'s governing documents and conflict of interest policies are not available to the public. Wellmont Health System's audited financial statements and quarterly unaudited financial statements are available through the Electronic Municipal Market Access website.

Form 990, Part XI, Line 5 - Other Changes in Net Assets Explanation

\$893,281 - Capital Contribution

\$893,281 - Total Other Changes in Net Assets

=====

Form 990, Part XII, Line 2c - Change in Financial Review Process

Wellmont Hawkins County Memorial Hospital, Inc.'s financial statements are included in the consolidated financial statements of Wellmont Health System.

Wellmont Hawkins County Memorial Hospital, Inc.'s financial statements for the year ended June 30, 2011 were audited as part of Wellmont Health System's consolidated financial statements. Wellmont Health System has an

Name of the organization

Wellmont Hawkins County Memorial

Employer identification number

62-1816368

audit committee which assumes responsibility for oversight of the audit of its financial statements and the selection of an independent auditor. This review process has not changed from the prior year.

**SCHEDULE R
(Form 990)**

Department of the Treasury
Internal Revenue Service

Name of the organization

**Wellmont Hawkins County Memorial
Hospital, Inc.**

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.

▶ Attach to Form 990. ▶ See separate instructions.

OMB No. 1545-0047

2010

**Open to Public
Inspection**

Employer identification number

62-1816368

Part I Identification of Disregarded Entities (Complete if the organization answered "Yes" to Form 990, Part IV, line 33.)

	(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1)						
(2)						
(3)						
(4)						
(5)						

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

	(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled entity?
							Yes No
(1)	Wellmont Health System 1905 American Way Kingsport TN 37660 62-1636465	Healthcare	TN	501c3	3	n/a	X
(2)	Wellmont Madison House 1905 American Way Kingsport TN 37660 62-1308216	Healthcare	TN	501c3	9	WHS	X
(3)	Wellmont Foundation, Inc. 1905 American Way Kingsport TN 37660 58-1594191	Healthcare	TN	501c3	7	WHS	X
(4)	Wellmont Cardiology Services 1905 American Way Kingsport TN 37660 26-3557623	Healthcare	TN	501c3	3	WHS	X
(5)	Wellmont Imaging Services, Inc. 1905 American Way Kingsport TN 37660 86-1103148	Healthcare	TN	501c3	11a	WHS	X

SCHEDULE R
(Form 990)**Related Organizations and Unrelated Partnerships**

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.

▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2010**Open to Public Inspection**Department of the Treasury
Internal Revenue ServiceName of the organization
**Wellmont Hawkins County Memorial
Hospital, Inc.**Employer identification number
62-1816368**Part I Identification of Disregarded Entities** (Complete if the organization answered "Yes" to Form 990, Part IV, line 33.)

	(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1)						
(2)						
(3)						
(4)						
(5)						

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

	(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled entity?
							Yes No
(1)	Wellmont Medical Associates, Inc. 1905 American Way Kingsport TN 37660 27-0898372	Healthcare	TN	501c3	7	WHS	X
(2)	Wellmont Sleep Services 1905 American Way Kingsport TN 37660 27-3777167	Healthcare	TN	501c3	3	WHS	X
(3)	Takoma Regional Hospital, Inc. 401 Takoma Avenue Greenville TN 37734 51-0603966	Healthcare	TN	501c3	3	WHS	X
(4)							
(5)							

For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Schedule R (Form 990) 2010

DAA

Part III Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Dispropor- tionate alloc?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?	(k) Percentage ownership
							Yes	No			
(1) Holston Valley Imaging Center 103 West Stone Drive Kingsport TN 37660 20-2043285	Healthcare	TN	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
(2) Sapling Grove Ambulatory Surgery 220 Medical Park Boulevard Bristol TN 37620 20-4450153	Healthcare	TN	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
(3) Holston Valley Ambulatory Surgery 103 West Stone Drive Kingsport TN 37660 62-1816864	Healthcare	TN	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
(4)											

Part IV Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
(1) Wellmont, Inc. 1905 American Way Kingsport TN 37660 62-1320035	Phys Svcs	TN	N/A	C	N/A	N/A	N/A
(2) Medical Mall Pharmacy, Inc. 1905 American Way Kingsport TN 37660 62-1565006	Med Svcs	TN	N/A	C	N/A	N/A	N/A
(3) Wellmont Physician Services, Inc. 1905 American Way Kingsport TN 37660 62-1567353	Phys Svcs	TN	N/A	C	N/A	N/A	N/A
(4) Wellmont Health Services, Inc. 1905 American Way Kingsport TN 37660 62-1254373	Healthcare	TN	N/A	C	N/A	N/A	N/A

Schedule R (Form 990) 2010 **Wellmont Hawkins County Memorial 62-1816368** Page 2

Part III Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(1)	(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Dispro- portionate alloc ?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
								Yes	No		Yes	No	
(2)													
(3)													
(4)													

Part IV Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(1)	(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
(1)WPS Providers, Inc 1905 American Way Kingsport TN 37660 20-5564642		Phys Svcs	TN	N/A	C	N/A	N/A	N/A
(2)MCOT, Inc. 1905 American Way Kingsport TN 37660 62-1325938		Med Svcs	TN	N/A	C	N/A	N/A	N/A
(3)Medical Laundry of Tri-Cities, Inc. 1905 American Way Kingsport TN 37660 62-1482226		Med Svcs	TN	N/A	C	N/A	N/A	N/A
(4)								

Part V Transactions With Related Organizations (Complete if the organization answered "Yes" to Form 990, Part IV, line 34, 35, 35a, or 36.)

Note. Complete line 1 if any entity is listed in Parts II, III, or IV of this schedule

1 During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

a Receipt of (i) interest (ii) annuities (iii) royalties or (iv) rent from a controlled entity

b Gift, grant, or capital contribution to other organization(s)

c Gift, grant, or capital contribution from other organization(s)

d Loans or loan guarantees to or for other organization(s)

e Loans or loan guarantees by other organization(s)

f Sale of assets to other organization(s)

g Purchase of assets from other organization(s)

h Exchange of assets

i Lease of facilities, equipment, or other assets to other organization(s)

j Lease of facilities, equipment, or other assets from other organization(s)

k Performance of services or membership or fundraising solicitations for other organization(s)

l Performance of services or membership or fundraising solicitations by other organization(s)

m Sharing of facilities, equipment, mailing lists, or other assets

n Sharing of paid employees

o Reimbursement paid to other organization for expenses

p Reimbursement paid by other organization for expenses

q Other transfer of cash or property to other organization(s)

r Other transfer of cash or property from other organization(s)

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

	(a) Name of other organization	(b) Transaction type (a-r)	(c) Amount involved	(d) Method of determining amount involved
(1)	Wellmont Foundation, Inc.	c	130,404	Need
(2)	Wellmont Health System	c	893,279	Intercompany Contribution
(3)	Wellmont Health System	j	190,632	Rental Agreement
(4)	MCOT, Inc.	1	103,177	Percentage of Amt Collect
(5)	Wellmont Laundry of Tri-Cities, Inc	1	83,907	Invoices
(6)	Wellmont Health System	1	2,167,859	Invoices

Part VI Unrelated Organizations Taxable as a Partnership (Complete if the organization answered "Yes" to Form 990, Part IV, line 37.)

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

	(a) Name, address, and EIN of entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Are all partners section 501(c)(3) organizations?		(e) Share of end-of-year assets	(f) Disproportionate allocations?		(g) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(h) General or managing partner?	
				Yes	No		Yes	No		Yes	No
(1)											
(2)											
(3)											
(4)											
(5)											
(6)											
(7)											
(8)											
(9)											
(10)											
(11)											

Part VII Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule R (see instructions).

Form **4562**
Department of the Treasury
Internal Revenue Service**Depreciation and Amortization**
(Including Information on Listed Property)

OMB No 1545-0172

2010Attachment
Sequence No **67**

(99) ▶ See separate instructions. ▶ Attach to your tax return.

Name(s) shown on return **Wellmont Hawkins County Memorial
Hospital, Inc.**Identifying number
62-1816368

Business or activity to which this form relates

General Depreciation & Amortization**Part I Election To Expense Certain Property Under Section 179****Note:** If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount (see instructions)	1	500,000
2	Total cost of section 179 property placed in service (see instructions)	2	
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	2,000,000
4	Reduction in limitation Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
7	Listed property Enter the amount from line 29	7	
8	Total elected cost of section 179 property Add amounts in column (c), lines 6 and 7	8	
9	Tentative deduction Enter the smaller of line 5 or line 8	9	
10	Carryover of disallowed deduction from line 13 of your 2009 Form 4562	10	
11	Business income limitation Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	
12	Section 179 expense deduction Add lines 9 and 10, but do not enter more than line 11	12	
13	Carryover of disallowed deduction to 2011 Add lines 9 and 10, less line 12	13	

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.**Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions)**

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	
15	Property subject to section 168(f)(1) election	15	
16	Other depreciation (including ACRS)	16	689,073

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)**Section A**

17	MACRS deductions for assets placed in service in tax years beginning before 2010	17	
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/>		

Section B—Assets Placed in Service During 2010 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs		S/L	
h Residential rental property			27.5 yrs	MM	S/L	
i Nonresidential real property			39 yrs	MM	S/L	

Section C—Assets Placed in Service During 2010 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs		S/L	
c 40-year			40 yrs	MM	S/L	

Part IV Summary (See instructions.)

21	Listed property Enter amount from line 28	21	
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21 Enter here and on the appropriate lines of your return Partnerships and S corporations—see instructions	22	689,073
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

For Paperwork Reduction Act Notice, see separate instructions.

Form **4562** (2010)

DAA

There are no amounts for Page 2



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 Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

WELLMONT HEALTH SYSTEM AND AFFILIATES

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Consolidated Statements of Operations and Changes in Net Assets	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5

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	<u>797,249</u>	<u>724,392</u>
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	<u>780,084</u>	<u>701,580</u>
Income from operations	<u>17,165</u>	<u>22,812</u>
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	<u>12,261</u>	<u>(2,486)</u>
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	<u>28,232</u>	<u>18,155</u>
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	<u>76,041</u>	<u>38,594</u>
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	<u>(981)</u>	<u>962</u>
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	<u>(32)</u>	<u>2,384</u>
Change in net assets	75,034	41,863
Net assets, beginning of year	366,727	324,864
Net assets, end of year	<u>\$ 441,761</u>	<u>366,727</u>

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

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(Dollars in thousands)

(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.

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- 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.

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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.

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(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:

	<u>2010</u>	<u>Additions</u>	<u>Decreases</u>	<u>2011</u>
Goodwill	\$ 9,501	7,220	—	16,721
	<u>2009</u>	<u>Additions</u>	<u>Decreases</u>	<u>2010</u>
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

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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 losses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets

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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.

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(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:

	<u>2011</u>	<u>2010</u>
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)
	<u>(1,493,039)</u>	<u>(1,465,927)</u>
Net patient service revenue	<u>\$ 767,450</u>	<u>692,920</u>

(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.

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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:

	<u>2011</u>	<u>2010</u>
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

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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.

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:

	<u>2011</u>	<u>2010</u>
Total assets	\$ 127,545	129,720
Total liabilities	31,326	13,943
Total net assets	<u>\$ 96,219</u>	<u>115,777</u>
Net revenues	\$ 184,648	166,815
Expenses	171,070	142,534
Revenues in excess of expenses	<u>\$ 13,578</u>	<u>24,281</u>

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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%
	<u>\$ 31,177</u>	<u>32,019</u>		

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.

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(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
	<u>273,886</u>	<u>247,674</u>
Assets limited as to use under self-insurance agreements:		
Corporate bonds	7,877	6,867
Cash and money market funds	652	558
	<u>8,529</u>	<u>7,425</u>
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	<u>1,902</u>	<u>1,815</u>
Assets limited as to use, net of current portion	<u>\$ 319,387</u>	<u>301,807</u>
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	<u>\$ 36,437</u>	<u>32,391</u>

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.

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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
	<u>\$.616</u>	<u>75,091</u>	<u>411</u>	<u>5,579</u>	<u>1,027</u>	<u>80,670</u>
	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
	<u>\$ 2,184</u>	<u>29,658</u>	<u>25,727</u>	<u>87,932</u>	<u>27,911</u>	<u>117,590</u>

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Investment income is comprised of the following for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Interest and dividends net of amounts capitalized	\$ 9,407	5,330
Realized gains (losses) on investments	976	(4,318)
Investment income, net	<u>\$ 10,383</u>	<u>1,012</u>
Change in net unrealized gains on investments	<u>\$ 42,186</u>	<u>22,312</u>

(8) Land, Buildings, and Equipment

Land, buildings, and equipment at June 30 consist of the following:

	<u>2011</u>	<u>2010</u>
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
	<u>926,707</u>	<u>896,982</u>
Less accumulated depreciation	<u>(484,187)</u>	<u>(459,935)</u>
	442,520	437,047
Construction in progress	<u>12,417</u>	<u>13,158</u>
Land, buildings, and equipment	<u>\$ 454,937</u>	<u>450,205</u>

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.

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(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.

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(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
	<u>461,623</u>	<u>473,366</u>
Unamortized premium	7,287	7,538
Unamortized discount	(377)	(1,113)
	<u>468,533</u>	<u>479,791</u>
Less current maturities	<u>(9,273)</u>	<u>(11,958)</u>
	<u>\$ 459,260</u>	<u>467,833</u>

(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.

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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.

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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.

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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.

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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
	\$	<u>461,623</u>

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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
	\$	<u>461,623</u>

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

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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)
							<u>\$ (11,588)</u>

* 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)
							<u>\$ (12,943)</u>

(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.

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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:

	<u>2011</u>	<u>2010</u>
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	<u>45,337</u>	<u>44,565</u>
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	<u>38,811</u>	<u>34,547</u>
Funded status	<u>\$ (6,526)</u>	<u>(10,018)</u>
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.

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	<u>2011</u>	<u>2010</u>
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	<u>—</u>	<u>2</u>
Net amounts included as an accumulated charge to unrestricted net assets	<u>\$ 8,565</u>	<u>13,160</u>
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	<u>(13,160)</u>	<u>(10,853)</u>
Change in unrestricted net assets	<u>\$ (4,595)</u>	<u>2,307</u>
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	<u>—</u>	<u>—</u>
Net amounts recognized as a charge to unrestricted net assets	<u>\$ (4,595)</u>	<u>2,307</u>

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	<u>2011</u>	<u>2010</u>
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	<u>\$ 1,102</u>	<u>1,003</u>
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.

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(Dollars in thousands)

The table below shows the target allocation and actual asset allocations as of June 30, 2011 and 2010:

<u>Asset</u>	<u>Target allocation</u>	<u>2011</u>	<u>2010</u>
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.

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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

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Net periodic benefit 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	<u>246</u>	<u>1</u>
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial loss	1,686	197
Amortization of net gain	<u>119</u>	<u>319</u>
Total recognized as a charge to unrestricted net assets	<u>1,805</u>	<u>516</u>
Total recognized in net periodic benefit cost and unrestricted net assets	\$ <u><u>2,051</u></u>	<u><u>517</u></u>

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

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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:

	<u>2011</u>	<u>2010</u>
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				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Total			
Assets:				
Stock mutual funds	\$ 31,311	31,311	—	—
Cash and money market funds	764	764	—	—
Alternative funds	6,868	—	3,280	3,588
Total	<u>\$ 38,943</u>	<u>32,075</u>	<u>3,280</u>	<u>3,588</u>

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(Dollars in thousands)

Fair Value measurement at June 30, 2010				
Pension benefits - plan assets				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Total			
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

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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.

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
	\$	<u>68,093</u>

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

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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:

	2011	2010
Professional care of patients	\$ 636,403	583,222
Administrative and general	142,768	117,123
Fund-raising	913	1,235
	<u>\$ 780,084</u>	<u>701,580</u>

(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.

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(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.

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- *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.

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The following table presents assets and liabilities that are measured at fair value on recurring basis at June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>293,589</u>	<u>26,480</u>	<u>37,778</u>	<u>357,847</u>
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	<u>22,654</u>	<u>2,271</u>	<u>—</u>	<u>24,925</u>
	<u>\$ 316,243</u>	<u>28,751</u>	<u>37,778</u>	<u>382,772</u>
Liabilities:				
Derivatives liability	\$ —	11,588	—	11,588
Total	<u>\$ —</u>	<u>11,588</u>	<u>—</u>	<u>11,588</u>

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(Dollars in thousands)

The following table presents assets and liabilities that are measured at fair value on recurring basis at June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>281,928</u>	<u>18,043</u>	<u>39,362</u>	<u>339,333</u>
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	<u>18,887</u>	<u>1,992</u>	<u>—</u>	<u>20,879</u>
	<u>\$ 300,815</u>	<u>20,035</u>	<u>39,362</u>	<u>360,212</u>
Liabilities:				
Derivatives liability	\$ —	12,943	—	12,943
Total	<u>\$ —</u>	<u>12,943</u>	<u>—</u>	<u>12,943</u>

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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)	—
	<hr/>
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)	—
	<hr/>
Balance at June 30, 2011	\$ <u><u>37,778</u></u>

(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.